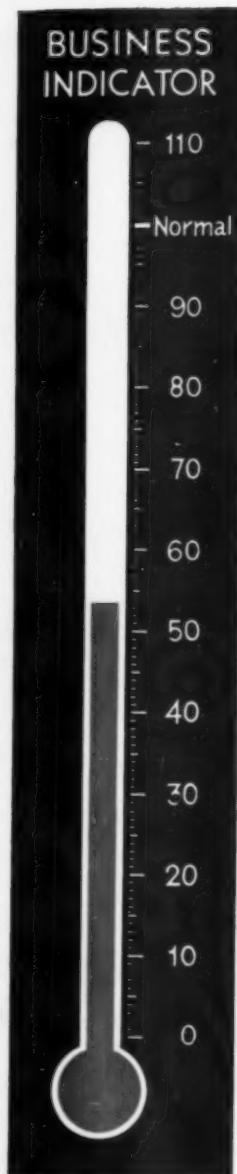


THE BUSINESS WEEK



Michigan's 8-day banking moratorium shocked business and the financial markets, but promises to work out with an irreducible minimum of damage. The automobile manufacturers, for example, continued to go ahead. Their support is lifting steel production to higher levels, particularly in the independent mills. . . . While bank suspensions have been declining in the past 4 weeks, the toll is still heavy. Currency outstanding reached a new high for the year, while check payments plumbed the depths. It is obvious that merely increasing the volume of currency will not solve the money problem, whereas business would respond immediately to the tonic of a greater turnover of what money we already have. . . . Cold weather came to the aid of coal and electric power production, and indirectly helped carloadings. . . . Commodity prices are still too sensitive to prevailing breezes, but better sentiment is cropping up in the market. . . . For the fourth consecutive month, commercial failures have been less numerous than in the preceding year, one of the most hopeful signs of the present season. . . . Another was the impressive report of the National Transportation Committee, which found the railroad situation not so desperate as generally represented, and remarked that the real solution is to treat railroading as a business. . . . Europe has a case of nerves. France, so long almost immune, is now feeling the full blast of deflation. . . . Japan's industrial boom continues; apparently foreign financial and commodity markets take the League of Nations more seriously than does she.

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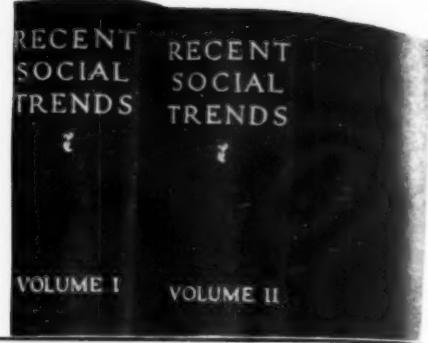
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THE BUSINESS WEEK

FEBRUARY 22, 1933

Baruch Kills Currency Inflation

Known to speak for Roosevelt, and himself highly influential among Democratic Congressmen, Baruch's vigorous opposition made it certain there will be no tampering with the currency for a year, at least.

WASHINGTON—Fresh from a series of conferences with President-elect Roosevelt, Bernard M. Baruch kicked the whole currency inflation plan for solving the depression out of Senator Harrison's committee room at the first hearing of the "best minds" on plans for getting the country—and the world—out of the red.

Director of several corporations interested in silver production, Baruch has been studying ways and means of enhancing its price for some years. Yet his only suggestion to the committee was for the international conference already proposed in the Democratic platform and accepted by Roosevelt.

Baruch's testimony ended all probability of currency inflation so far as the first session of the new Congress is concerned. It may be stated flatly now that there will be no currency inflation for a year at least. Not even by the silver route. Inflation by unbalanced budget is something else again; that may happen despite Baruch's eloquent plea for economy.

This was the probability before Baruch testified. It is now a certainty. Baruch outlined his relief plans after exhaustive discussions of them with Roosevelt. Moreover, Baruch has tremendous personal influence on Demo-

crats in the Senate and House. This has many times been demonstrated.

A canvass of the "silver senators" shows that they have no real hope. They talk loudly, for the effect on the vote in their own states. Privately, they admit nothing can be done.

They point out that the American experts to the London Economic Conference are personally opposed to doing anything about silver. They have no real hope of anything concrete being done by the international conference which Roosevelt is pledged to call.

To do anything in advance of that conference, they admit, would weaken the bargaining power of this government. For example, if this country should adopt the suggestion of buying a lot of silver and issuing silver certificates against it, other nations would dump more silver on the market for us to absorb, and withdraw more gold in exchange. Thereupon there would be less incentive for other countries to join us in doing something about silver.

One suggestion has been for the United States to take at market prices the 80 million ounces of silver which Britain under agreement takes from India every year as part payment of the war debt. The promise to keep this silver off the world market, would, it

was suggested, make the proposition attractive to Britain. Then we could issue silver certificates against the bullion, thus causing a mild form of inflation.

But the "silver senators" do not think the operation would help much, and they think even this would curtail the probability of Britain being "reasonable" at the international conference.

Baruch also killed the Patman plan for paying the bonus immediately in greenbacks. The incoming Administration is opposed to this. Furthermore, it has no commitments whatever on the bonus, save that it shall be paid when the money is in the treasury and the government can afford it—which seems rather remote.

UNDERLYING the Brattan-Costigan plan of forcing the government departments to cut their expenses 5% without reducing salaries or wages is concealed an efficiency motive which in other days would have brought acute distress to the labor leaders.

The senators are not talking about it in public, and very little in private, but what they propose to do is to have the least fit and least efficient employees in the government service weeded out, precisely as corporations would do.

Their plan of course will result in thousands of government employees being thrown out of work. When it is suggested this is no time to discharge people, their answer is that in prosperous times, no such housecleaning could be brought about. It would be impossible to muster enough votes in Congress.

As a matter of fact, were it not for



Wide World

"THE ROAD TO RUIN"—"If I did not know that there was nothing but destruction to be derived from the project of inflation, I would be the first to advocate its trial." Bernard M. Baruch's solemn warning stirred the Senate Committee. Sen. Reed Smoot (left); Mr. Baruch; Gen. Hugh S. Johnson, Mr. Baruch's business associate; Sen. Pat Harrison; Sen. William H. King of Utah (right). The committee is canvassing opinions on the way out of the depression.

the unemployment problem, many bureau heads would be willing to have an ax wielded around them, provided it were done intelligently—i.e. by them. And provided, and this is most important, they had a reasonable hope that they could supervise the building up of their bureaus after the emergency.

The progressive senators have considerable backing for their plan, because the labor leaders are desperately opposed to any further encouragement of wage cutting in private industry by the government's setting the pace.

There is also other support. In its "summary of suggestions" in "Balancing the Budget" the University of Chicago Round Table says:

"7. We suggest that salaries should not be further cut unless steps are taken at the same time to accomplish all other possible economies in the public service; that personnel surveys be made and that the findings be used immediately as a basis for the separation from payrolls of superfluous and inefficient employees and for any cuts in wages which may be made."

whole array of industries interested in public works would fight the proposition. Opposition would also arise among state and municipal officials. It would meet with special resistance during the period of depression, when much of the construction is for the purpose of unemployment relief, and when the United States government, states, and municipalities are attempting to finance this construction by issuing a large volume of tax-exempt securities.

Tax Exempts

Constitutional amendment would close the loophole through which the wealthy escape in the payment of income taxes. A meritorious idea, but not one likely to be adopted.

ELIMINATION of tax-exempts is the object of an amendment to the Constitution offered by Senator Hull of Tennessee. If adopted, it means that neither the federal government, nor the states, nor municipalities will have the power to issue tax-exempt bonds. The amendment goes further than that, for it provides that the vast army of federal, state, and municipal employees, who today pay no income taxes, will be taxed on their incomes in common with all other citizens.

The proposed amendment is not retroactive and does not attack the \$25 billions of tax-exempt securities outstanding at the end of 1932, of which \$18 billions were issued by states and local governments, and the remainder by banks under the jurisdiction of the Federal Land Banks and by our insular possessions. The federal government now has outstanding about \$5 billions of securities exempt from all but state and inheritance taxes and \$7 billions exempt from all but state, inheritance, and surtaxes. Some of these figures are overlapping. Says Senator Hull, "It is unwise to create a class in this country which cannot be reached for tax purposes. Such policy is utterly inconsistent and at war with any system of graduated income surtaxes and it will ultimately destroy the latter."

The Idea Is Correct

The Senator is correct on every count. In fact he has not put the position strongly enough. The Treasury would have to pay slightly more for money if United States government securities enjoyed no advantages over private borrowers. But one advantage would be the wider distribution of government securities among people of small means instead of having them concentrated in the hands of large holders and people

with very large incomes. Therefore there is every reason to urge elimination of normal tax exemption which enables governments to borrow at less than the going interest rates and prevents a democratic distribution of public issues. Moreover, the ease and low rate with which tax exempts can be sold encourage lavish borrowing by federal, state, and municipal governments.

Meritorious as the proposal is, however, it is to be feared that it will not pass. Besides the wealthy investors, the

Ashes to Bricks

New process makes building materials from fly-ash recovered from pulverized fuels.

UTILIZATION of fly-ash recovered from pulverized fuel-burning power plants appears to be coming within the range of commercial possibility. Experiments are to be carried on during the next few months at a plant of the Detroit Edison Co. following small-scale trials. The process by which the ash is changed chemically into a suitable material for various building shapes, such as bricks, slabs, hollow tile, was developed by Rostone, Inc.

When the production aspects of the process have been smoothed out, fly-ash brick and other forms of the product will be available on the market. The natural color is a rather light gray, but it can be produced in many colors by merely adding pigment.



CUBAN LEADER—The bearded gentleman is General Menocal, spear-head of the thrust to overthrow the Machado régime. Surrounding him are his aids and two of his five sons, some of them now reported in Cuba since this photograph was taken at the Menocal headquarters in Miami.

Michigan's Grim Holiday

Governor closes banks for 8 days; Detroit improvises expedients to get cash while the whole state organizes to meet the situation precipitated when real estate deflation, steady withdrawals, and blocking of R.F.C. loans brought Guardian Trust to the end of its rope.

HARD times in the motor industry brought in their train terrific deflation of real estate boom values in Detroit. This is the fundamental cause of the crisis which caused the Governor of Michigan on Tuesday to proclaim a "holiday," closing all the banks in the state for 8 days, and tying up \$1½ billions of deposits. This major disturbance in the banking situation was a serious blow to business in the Detroit area, and a temporary shock to the financial markets in Wall Street. Temporary expedients, however, quickly relieved the worst difficulties imposed on business by lack of cash and of checking facilities. Attitude of depositors encouraged bankers to believe that when the moratorium expires, plans being laid to preserve orderly conditions would be fully successful.

Union Guardian Trust Co. was the center of the trouble. An overwhelming proportion of its assets—reported as high as 72%—was real estate loans. Early last summer, it borrowed \$15 millions from the R.F.C. Publicity given this fact did nothing to help the situation. Withdrawals continued. Deposits, which were \$31 millions at the year-end, ran off some \$10 millions in 6 weeks. Union Guardian Trust decided the thing to do was to liquidate. It wanted to borrow a further \$37 millions from the R.F.C. to pay off depositors, and wind up its business, the loan to be repaid as assets were liquidated over a period of time.

Ford's Interest Large

This much is clear enough, but from this point on, the story grows confused. Ford has been interested in the Guardian group; Edsel Ford is a director. As the Trust Company's troubles developed, the Fords increased their deposits, until at the time of closing, they were more than \$7 millions. With stock and deposits, the Fords' interest in the whole Guardian group has been put at \$20 millions.

Henry Ford once had a partner named James Couzens; they had differences. Mr. Couzens is a Senator, now, and chairman of the committee investigating R.F.C. loans. When the Guardian's second application came before the R.F.C., Senator Couzens objected, according to a copyrighted account published in the *Detroit Free Press*, said the collateral offered was not adequate. It was sug-

gested the deposits of large depositors be offered as part of the collateral.

Governor William A. Comstock gave out an interview in which he stated that the other large depositors, including General Motors and Chrysler, agreed, but that Mr. Ford refused. That was strange stuff on the face of it, for no one has as great a stake as Ford in that particular situation. And sure enough, the Governor retracted his statement, said he had been misinformed. Inci-

to involve the whole Guardian group. The R.F.C. worked until 1 o'clock on the morning of Feb. 14 to try to save the situation, but in the face of objections, could not see its way clear to make a loan. It became clear that the Trust Co. would have to close the next day. It was feared that would start runs on Guardian National, 20 other banks in the Guardian group, and probably on all banks. So the Governor declared the 8-day breathing spell.

Guardian Detroit Union Group is a holding corporation binding together one of the largest and most powerful groups of banks in the United States. It owns all, or virtually all, the stock in 21 banks and 40% of the stock in 6 other banks and 5 corporate affiliates. Union Guardian Trust Co., which it completely owns, was organized in 1930, merging Union Trust and Guardian Trust Co. Guardian National Bank of Commerce is the big Detroit bank which heads the string. It is in highly liquid condition.

Some Emergency Measures

Suddenly deprived of banks, and of the source of supply of money, Detroit devised quick expedients. The banks early arranged to permit depositors to withdraw 5% of their deposits, which released \$25 millions. Life insurance companies agreed to accept checks as "conditional" payment of premium, so that policies would not lapse.

The Chrysler Corporation opened its own bank to cash checks of employees. Many stores are accepting checks from regular customers. Various large corporations arranged to have cash shipped in to meet payrolls.

Barge Lines

Tired of ring-around-the-rosy, the railroads try to enjoin the I.C.C.

WASHINGTON—Tired of playing ring-around-the-rosy with the barge lines according to the rules of the I.C.C., the railroads have now brought suit for injunction. The game started last fall when the railroads, determined to prevent any more cotton traffic from slipping away to barges and trucks, put in new, low carload rates to mill points in Eastern and New England states. A carload rate on cotton was something new and barge lines that had thrived on joint barge-rail rates differentially lower than the any-quantity all-rail rates protested loudly.

A few weeks later the I.C.C., without a hearing, served notice on the railroads fixing new barge-rail rates differentially lower than the all-rail carload rates.

This was too much for the railroads. They have now asked the U. S. District Court at Wilmington, Del., for an injunction against the commission's order.



Wide World
MICHIGANDER — Governor Comstock of Michigan declared a state holiday in honor of the banks, blamed Ford, later recanted, said he "misunderstood the circumstances."

dentially, neither General Motors nor Chrysler were depositors. The truth seems to be exactly the opposite; Mr. Ford was willing to allow his \$7 millions of deposits to be "frozen" if other large depositors would do the same; it was the others who balked.

Meanwhile, reports that Union Guardian Trust was in difficulty of course leaked out in Detroit; it was too much to expect that the rumors would either be confined to fact, or fail



GLAD IT'S OVER—Members of the National Transportation Committee recently called on Chairman Rayburn of the House Interstate Commerce Committee to inform him their report would soon be made public—and are they relieved after the long grind of hearings and deliberations! They are, in the remote chance that anyone in the world doesn't know, Al Smith (left) Bernard M. Baruch, Chairman Rayburn and Alexander Legge (right). Missing, Clarke Howell and, of course, Calvin Coolidge.

Reynolds

Railroad Rescue

National Transportation Committee's "solution of the railroad problem" is to treat railroading as a business.

THOSE who guessed that the National Transportation Committee would function as window dressing for a railroad appeal for special consideration at the hands of the R.F.C., Congress and the public guessed wrong. Whatever help in the whole American transportation muddle was expected of the committee, the most important contribution of its long-awaited report of Feb. 15 is the principle that railroading should be treated as a business, not as a special interest, nor a "peculiar institution."

After all the special pleading that has been heard in these last sad years, this quiet idea should seem revolutionary to all but realists. Despite the pressure on them of what Alfred E. Smith refers to as "the theory that a great many railroad securities are held by savings banks, trustees, and insurance companies as security for widows, orphans, and other beneficiaries of trust," Messrs. Baruch, Smith, Howell, Legge, and their late chairman, Calvin Coolidge, turn out to have been realists.

A Familiar Paradox

This appears most clearly from their treatment of the familiar paradox wherein it is argued that the railroads must be restricted to prevent their forming a transportation monopoly—and must receive special protection from competition because they are so restricted.

To that the committee answers shortly that, if regulatory control hasn't taken care of the monopoly threat, the invasion of the trucks, buses and private cars has; that it is therefore ridiculous both to maintain an artificial competition among the railroads themselves and to impose artificial handicaps on competition from the highway and the waterway.

Consequently the report urges the

hastening and, where necessary, the enforcing of regional rail consolidations, looking eventually to a single national system, with the railroads free to adopt cheaper transportation methods where rail services are unprofitable, which means free to go into highway or waterway shipping wherever they will.

This substitution of a single non-competitive rail system for the present ideal—a limited number of competing ones—will probably be the principal target of critical brickbats. It was advocated by Senator Cummins back in the 'teens, embodied in the Transportation Act of 1920 as passed by the Senate but dropped in conference as unconstitutional. Those who have less faith in regulatory controls than the committee say only government ownership can make it safe.

New Rate Rule

In furtherance of its effort to treat the railroads like any other business, the committee—Mr. Smith apparently excepted—would terminate abruptly the whole weary effort to fix rail rates on valuation. It says, "We see no reason why a rate-making rule should not say in plain English that the railroads are entitled to make a reasonable profit based upon costs of efficient operation and that they are not entitled to earnings merely to preserve present structures if overcapitalized." Mr. Smith who in his forthright supplementary memorandum ("in my own language") removes the "if," is not so sure that "this theory of the natural rule of survival" will work or ought to be worked, leans toward "prudent investment" as a rate base and thinks the whole subject should be left to Congress. Outsiders say that the committee has missed the fundamental rate problem; that rates made to yield a reasonable profit in prosperous

times may not carry the roads through a slump.

In all this there is not much consolation for the railroads, particularly for such of them as had hoped to get ahead by pull rather than push. Rates are tied tight to "the cost of efficient operation." Operators are told in plain language which Mr. Smith found it difficult to make much plainer that they have left many things undone. For example, "A more progressive policy might have turned to their own distinct advantage the very things they now regard as a burden and a threat."

Cracks at Crack Trains

The committee finds it difficult to sympathize with the "extravagance" of "crack passenger trains shuttling back and forth across the country empty or nearly so . . . for sales promotion or advertising purposes"; with the cost of duplicate terminal facilities maintained for "purely competitive advantage"; with poverty that comes from applying too great a proportion of earnings to dividends and too little to the retirement of debt and the accumulation of surpluses and reserves. There are invidious comparisons with German railroads and the suggestion that American ones should contribute jointly to central research and engineering organizations, lest it continue to be "fairly said" that the railroad advance in applied science is not "abreast of that in other industrial fields."

The automobile interests, that were perhaps most distrustful of the committee and what it might do to prejudice the public in the railroads' favor, will draw a deep breath of relief. Granting the problem that their competition—and its "chaotic rates"—presents to the railroads, the committee urges that the automobile should bear its fair burden of tax on the basis of public expenditure in its behalf, plus its share of the general tax load. But "neither tax nor regulation should be applied for any purpose of handicapping the march of progress for the benefit of the railroads."

Waterway enthusiasts do not come off

so well. The report holds severely to the principle that if the waterways can't pay their way—including amortization, maintenance and interest charges—and still compete with the railroads they should be abandoned. And this rule the committee implies—while Mr. Smith frankly says so—will kill the St. Lawrence project.

Finally, omitting any recommendations on the pipelines as not constituting a present problem, Messrs. Baruch *et al* (or, as some commentators suggest, "Al") point out that airway subsidies cannot with good grace be protested by railroads that "were themselves subsidized in their development period."

Dept. of Transportation

Mr. Roosevelt's "flier" suggestion of a new Department of Transportation finds endorsement among Governor Smith's addenda to the committee report. He believes that, after the "complete breakdown of the present valuation formula has left the I.C.C. in a condition that would be laughable if it were not so serious," perhaps it would be best to start all over again with a new body headed up by one man. The majority of the committee would be content with a departmentalized commission, set up to dispose of the com-

plexities of supervision more speedily and efficiently, particularly to handle the job of corporate reorganization, which is called "an emergency matter."

In these "emergency matters" for immediate action which terminate the report, this demand for reorganization, which means a write-down of fixed obligations, becomes the dominant theme, after breaking through again and again in earlier recommendations. The committee urges a revision of the bankruptcy procedure "to permit prompt and realistic reorganization of overcapitalized corporate structures without destructive receiverships or judicial sales on depressed markets." It notes sadly that the use of federal credit to tide some roads over the emergency has "encountered a link between the emergency and the more permanent problems." In plain English, it sees no percentage in R.F.C. loans to roads whose fixed charges are heavier than even a restoration of profit could cope with.

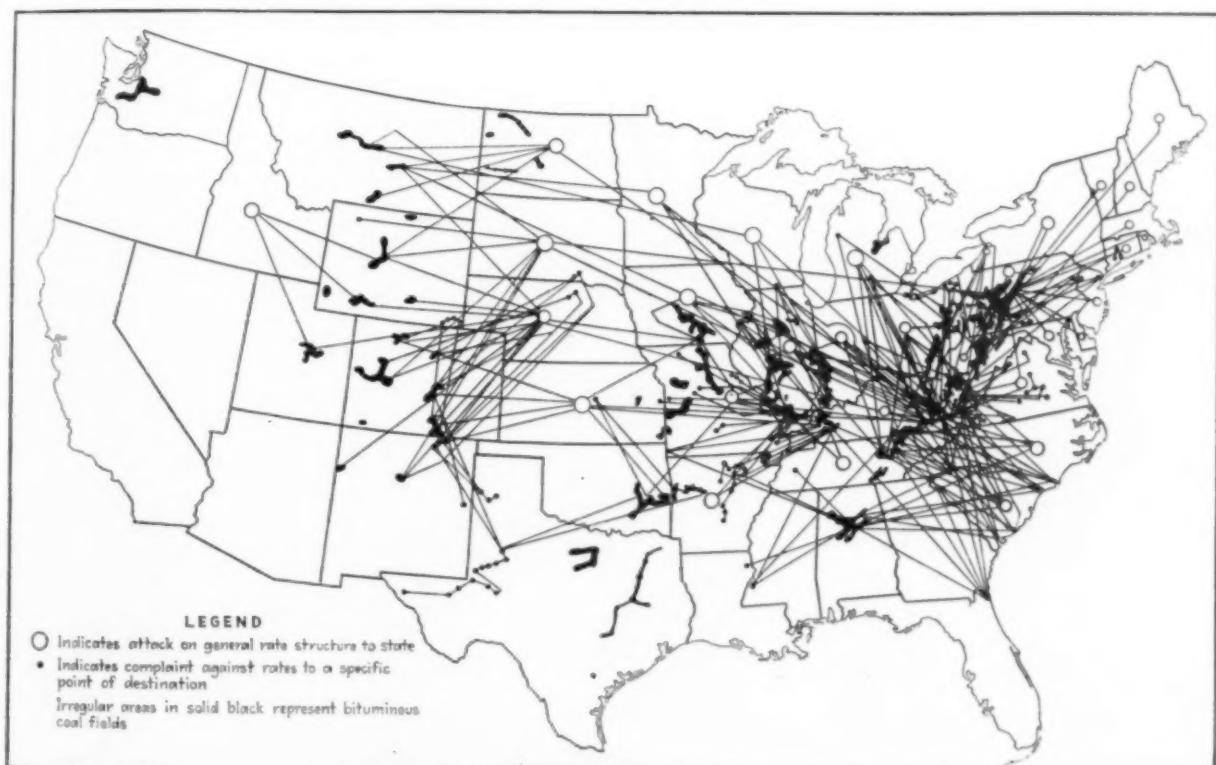
However, Messrs. Baruch, Howell and Legge think that after tophat structures have been sliced down, the R.F.C. might well base its loans on priority of lien and reasonable prospects of earnings rather than insist upon "marketable collateral." Mr. Smith, in

keeping with his skepticism at other points, will have none of this. He also takes exception to the third emergency recommendation—for immediate revision of the statutory rule of rate-making as previously discussed. On the fourth—retroactive repeal of the recapture clause—the committee shows the same unanimity as almost every other body which has tackled this question, including the I.C.C.

Recommendations Anticipated

All of these emergency recommendations have been anticipated and are already in consideration in Congress. Committee support may provide the weight which is needed to push them through.

One delicate subject—delicate both politically and economically—the committee sidesteps with equal unanimity. There is no general declaration on railroad wages beyond the significant dictum that "in the railroads (as in other industries) rates, capitalization, salaries and wages must all follow changing economic conditions." The addition of "but none should be sacrificed for the benefit of the others" will not prevent the railroad brotherhoods from inferring that silence gives consent to the wage cut they expect next summer.



COAL'S FIRST 100 FREIGHT RATE BATTLES—The map tells better than words how broad is the front on which the bituminous coal industry has attacked the railroads. Close observers have been noticing the quiet but impressive accumulation of individual complaints before the Interstate Commerce Commission. Pending are more than 100 such cases; 30 of them attack the general freight rate structure to whole states; the rest complain of individual rates to specific points. This is but a beginning. So carefully have rates been balanced as between rival coal fields and between rival towns that a decision lowering any single rate will unloose an avalanche of complaints from mines or markets whose competitive position is disturbed.

Coal Age

One-Man Show

Senator Couzens gets more excitement than nourishment out of his baiting-the-railroads act.

THE one-man investigation of the credit situation and R.F.C. policy has shut down. Possibly because Senator Couzens didn't find much nourishment for his idea that the Finance Corp. either must put itself behind the whole debt structure or withdraw its support of the railroads. But those who know the obstinate chairman of the Banking Subcommittee believe he will strut out with an equally dismaying substitute for his first proposal to shut off further loans to the railroads.

The senator is using the railroads as a handle because, as he frankly explains, they are easier to grab than the banks and then, too, he pretends to a greater familiarity with the railroads than with other pleaders at the door of public credit.

Couzens' Favorite Question

One of the senator's favorite questions, in his rôle as inquisitor, is why the railroads should be "singled out" for help. He argues that the use of public credit to guarantee bank deposits or to peel off the farmer's laminated mortgage would do more to restore normal business than a "hopeless" attempt to support the distorted relation between the amount of the railroads' outstanding securities and the present value of their properties. Railroad loans authorized by the R.F.C. total \$337 millions, disbursements \$290 millions, repayments \$11 millions and pending applications approximately \$70 millions.

Respectfully hostile witnesses, such as Charles D. Mahaffie of the I.C.C. and Myles Kennedy of the R.F.C. quietly maintain that even where the market value of railroad collateral is less now than the loans outstanding, there is no reason for anxiety. Gently they remark that many factors other than market value indicate the worth of such collateral.

On the broad economic proposition of carrying the railroads along, Arthur A. Ballantine, Under-Secretary of the Treasury, insists that this is a key situation. Maintain transportation and all fronts are strengthened. Scatter the R.F.C.'s resources and it can help nothing. And that prompts the petulant senator from Michigan to pose, with evident relish, two intangible questions. One, on the extent of public credit resources. The other, on how far we should go in supporting the railroads' debts.

Nobody knows but, as Secretary Ballantine sagely remarks, we can't lay down a pattern for this depression to follow. We go ahead as far and as strong as we can and we find out.

To force the railroads into bankruptcy by shutting off loans at this crucial time would, according to A. P. Thom, general counsel of the Association of Railway Executives, require the owners to sacrifice their investments unnecessarily. While Senator Couzens reads newspaper clips, the 78-year-old railroad lawyer recites his creed that the railroads are and will continue to be the backbone of transportation. They are still essential to the public welfare—

(And so, remarks Senator Couzens, are the harness and buggy industries.)

The railroads believe that the time is coming when they can repay every dollar borrowed. If that time doesn't come, says very-old-and-very-wise Mr. Thom, it will be a disaster of such tremendous proportions that it won't matter whether anybody pays anybody else or not.

If the railroad plant overexpanded in response to the insistent demand of shippers, if their financial structure has become top-heavy, this can be adjusted but, says Mr. Thom, it shouldn't be done at the bottom of the depression. He urges that the railroads be granted credit on a broader basis than mere banking collateral to protect their properties until they can take advantage of debt relief legislation to scale down their capital obligations.

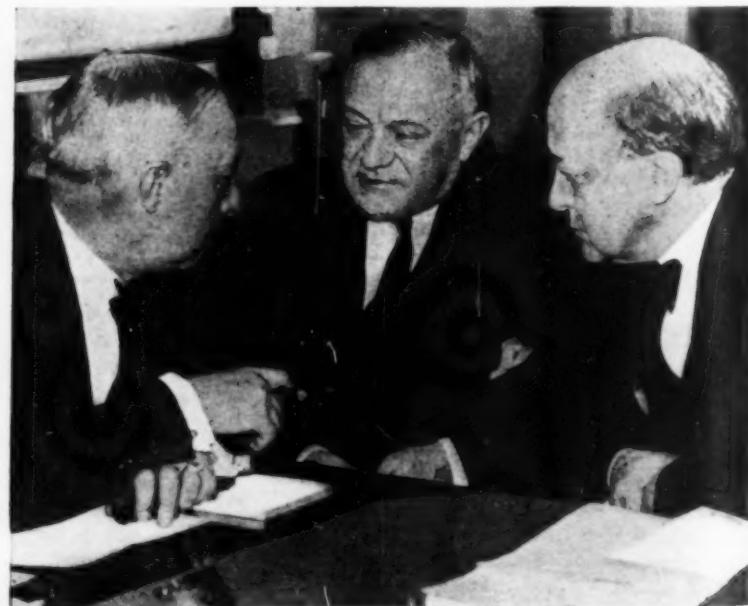
The Senate Judiciary Committee is endeavoring to reach agreement on a new draft of the debt relief bill that, in its railroad provisions, embodies changes suggested by the I.C.C. But the bill is sinking fast and no hope is held for its recovery this session.

Innovation

Corn Exchange Bank and North-western Life Co. bare investments, set precedent. Portfolios reveal nothing startling.

BLASE Wall Street was taken aback when the Corn Exchange Bank and Trust Company of New York sent to its stockholders, not only the usual type of bank statement showing its condition, but also a full list of its investments. This is a startling innovation. Bank officials have always considered it a cardinal banking principle to let out as little information as possible about their operations. When Congress passed an act forcing the Reconstruction Finance Corp. to publish its loans, the proposal was fought bitterly by the banks; in fact, Wall Street glibly argues that the recurrence of bank failures during the last few weeks is the consequence of this publication.

Now that the Corn Exchange Bank has broken the ice, will other banks follow? The first imitation that came to hand was the 1932 report of the Northwestern Mutual Life Insurance Company. The company not only separated its real estate holdings from farm



NEW YORK ASKS R.F.C. LOAN—Al Smith, his old friend Sen. Robert L. Wagner (N. Y.) and Atlee Pomerene, chairman, Reconstruction Finance Corporation talk over the various projects New York desires to promote, to provide employment for the jobless on public works projects.

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International News

CLOSE CONFERENCE—Sen. Thomas J. Walsh (Mont.) whispers comments to Sen. Joseph T. Robinson (Ark.) during subcommittee hearings on the St. Lawrence Waterway treaty.

mortgages but also gave the value of foreclosed mortgages and then—hold your breath—published a complete list of its bond holdings. Complete publicity forestalls all whispering campaigns. It should be noted that it was the New York Stock Exchange, a private institution, that did more than any government agency has ever done to make public information about corporations—making it obligatory for corporations with securities listed to publish periodically an earnings and condition statement. In recent years, this provision has been extended to include the portfolios of investment trusts. Needless to say, the innovation was breath-taking and has been resisted by certain corporations to this day as an intrusion into private affairs, and one that exposes them to their competitors.

There have been scores of banks that in the past have given their bond portfolios in terms of present-day market value instead of, as they are permitted, in par or purchase price, or a previously written-down value. But the action of the Corn Exchange Bank in revealing its entire portfolio is a tribute not only to the conservatism of the bank which permitted the institution to do it, but also to its courage in thus inviting analysis.

The published portfolio discloses that the bank held \$69 millions of U. S. government securities which are, of course, immediately cashable. State and municipal bonds total \$20 millions, the largest block being \$4 millions of New York City 6% corporate stock due from

1935 to 1937. Foreign bonds total only \$2 millions, and railroad bonds total \$7.3 millions. Says Walter E. Frew, chairman, and Dunham B. Sherer, president: "All stocks have been reduced to market value as of Dec. 1, 1932, and all bonds which have failed to pay maturing coupons have been reduced to \$1 on our books."

Company Charge

To help workers smarten up, Boston store suggests employers open a group account.

AN experiment in credit by Kennedy's men's store, Boston, is a "group charge account." It puts the employer back of the transaction, allows him to set the limit for the employee, provides that he shall do the collecting. The employer opens the account, naming employees entitled to purchases. Items are charged to the company, which collects 5% or 6% weekly; at the end of 90 days, 60% to 75% has been liquidated. The company then advances the balance, continuing the weekly deductions from its employee. Operation of the plan begins early in March.

An obvious obstacle is the reluctance of companies to assume such a responsibility. Kennedy's answer is that better appearance will improve many a concern's morale and business. Recostumed men "should be much more productive, ambitious, and valuable" to an organization.

Basement Togs

Hat and shoe sales show that now even a man will go downstairs.

THE average male parts reluctantly with old hats and shoes. This habit has been carried to the point where hats and shoes threaten to part with him. Price is paramount in replacements, the trend having induced retailers to experiment by stocking these items in basements and bargain sections. Gimbel's, New York, has discontinued the promotion of men's hats as an item for \$1 days, now carries low-priced models regularly in its cash-and-carry basement. A popular line retails at \$1.67. Bloomingdale's and other New York stores continue to feature \$1 hats in special selling. Demand at these price levels has induced many new companies to start making cheap hats—a swing in this direction having become evident following the Federal Trade Commission's hearing on unfair competition from remade hats (*BW*—Nov 18 '31).

Shoes, too, are being displayed regularly in volume departments. Coward Shoes, Brooklyn, recently opened a new downstairs store featuring footwear at prices from \$5 to \$7. The lowest price upstairs is \$8.45.

Retail Split-Up

Final summary of distribution census traces the course of the boom-time dollar.

THE Census Bureau reveals, in a final summary of the country's first distribution analysis, that in 1929 the United States had 1,543,158 retail stores which in that year did a total business of \$49,114 millions, employed 6 million persons, paid over \$7 billions in wages. Since they cover a boom period the figures are principally of sentimental interest, but their break-down indicates percentages which probably have not changed a great deal. Up to that point the one-unit independents had plentifully survived. They comprised 80% of all stores. But they did only 64.11% of total business. The 159,638 stores of the 7,061 chain organizations captured 21.9% of retail sales.

About 25% of total business was done by the 1% of stores which sold over \$300,000 annually; 43% did a business of less than \$10,000 each. Less than a quarter of the number made three-quarters of total dollar sales. Average stores did a \$32,000 business.

Biggest share of the retailer's dollar (22.07%) went to food stores. Next came the automotive group with 19.58%; third largest was the general merchandise group, including department stores.

Ford, Wages, and Depression

Henry Ford tells *The Business Week* trade paralysis hasn't shaken his belief in the necessity of high wages; says he hasn't cut as much as the dollar has gone up and will raise rates as fast as volume picks up. Calls spread-work a fallacy "that just makes everybody poor."

HENRY FORD is not the least bit shaken in his belief that high wages are not merely desirable, but necessary. Neither the grinding of the depression years nor the labor incidents of the past few weeks in Detroit have altered his familiar philosophy. He has been obliged to make wage cuts, but he believes he was the last important manufacturer to do so, believes the cuts he made were the mildest of any, and above all, he is emphatic in asserting that they are temporary—wages must be raised swiftly whenever volume of business picks up.

He discussed the question for an hour in his offices at Dearborn with the editor of *The Business Week*. This was a week ago when Detroit's main topics were still labor and motor cars, not the banking situation. Often the talk swung to other topics but always it came back to wages, the ultimate measure of the consumer market.

"Where else can you sell cars—or anything else—except to wage earners?" he demanded. "There aren't enough people of any other kind to support any industry."

Mr. Ford has heard the current criticism that he has "passed the buck" on wage-cutting by letting out more of his work than ever before, demanding such low prices from suppliers that they have to cut wages, while he escapes the onus. He meets the issue squarely.

Up to Management

"Wages in the Ford plant and in plants doing Ford work are the highest in the industry. We do not believe that the kind of workmen you can get for starvation wages can turn out parts that will meet our rigid specifications. The people who supply us understand where business comes from; they see the situation clearly."

Moreover, they say at Dearborn, though Mr. Ford does not tell it himself, that twice in 1932 he made a check of wages paid by his suppliers, when complaining letters from workmen in such plants reached him. He insists that efficient management can pay good wages and earn profits at the prices he pays.

"I never have changed my ideas about wages in the least," Mr. Ford reiterated quietly. "Of course, in these times with everything so paralyzed, we finally did have to do something about it, but all we did was make an adjustment that

recognized in part the increased value of the dollar. I don't remember all the details, but it was about in the ratio of one-sixth, that is, men getting \$6 before are now getting \$5. We can get you the figures, if you want . . .

"I believe in efficient, well-paid men, not in a lot of poorly-paid men," he went on, suddenly leaning forward, with one of his restless movements.

"Then you don't think much of the spread-work idea?"

"I do not. It doesn't work. You just have everybody poor under that plan. The men aren't satisfied and they don't put their hearts into their work. And you aren't satisfied, you have a lot of poor workmen and you have all the extra administration of a body of men that may be twice as big as efficiency demands."

"By the way," he remarked suddenly, "you can see that principle work-

ing out now over at the Briggs plant. Briggs tried sharing the work. The result was everyone was dissatisfied. The Briggs plant is paying better wages today, and getting out more bodies with fewer men because it has quit letting the theorists run the shop. That's the job of management—to pay good wages and then get results. The sweat ought to come out of the brains of the managers, not out of the workmen's pay envelopes."

Mr. Ford is firmly convinced the Briggs strike was inspired; unhesitatingly says competitors were anxious to embarrass him. But he acknowledges with equal readiness that if the men had felt they were well-treated, agitators could not have stirred up trouble. He says the trouble is over now.

"We gave 'em a few hints on some changes in factory methods," he remarks drily.

Cool to Unions

The body plant strikes have been represented in some quarters as the beginning of a campaign to unionize the motor industry. Mr. Ford would express no opinion as to that—but if it were true, the movement wouldn't get far, he predicted. And he has no high opinion of unions.

"Unions," he remarked, "aren't organized by the men but by groups that want to use the men. I think the big



International News

BACK TO WORK—Henry Ford thinks business management grew slack in the fat years; that it is time to get on the job again and see what efficiency and ingenuity together can provide in new values for the consumer.

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How the Big Three Line Up

Make	Wheelbase	Horsepower	F.O.B. Price 4-Door Sedan
Old Ford 8	106"	65 @ 3400 r.p.m.	\$590
New Ford 8	112"	*75 @ 3800 r.p.m.	560
Chevrolet 6	110"	65 @ 2800 r.p.m.	565
Plymouth 6	107"	70 @ 3600 r.p.m.	545
Pontiac 6½	115"	75 @ 3600 r.p.m.	695

*Advertised horsepower; actually, 82@3,900 r.p.m.

Listed for comparison to show how Ford now competes in next price class.

fellows foster unions. They think they can handle labor more to their own ends when it is tied up in a union."

"Unemployment insurance?" — repeating a question — "That won't get anywhere. There's a lot of talk about it, but nothing will be done. Who's going to pay for it? When the workmen see that they are the only ones who will pay for it, they won't want it."

He does agree, however, that out of his bitter experiences of the past few years, the workman is thinking about better security in the future.

"There is no such thing as security in this world. The world cannot be made safe for everyone, or even for anyone," he says, "but there is possible a greater stability than we have today for the workman. It will be found in decentralization. We are starting it; other industries will have to come to it. These great plants which gather perhaps 125,000 families around them, absolutely helpless except for the one factory, absolutely at the mercy of such fluctuations as we are having, are wrong."

"Industry must decentralize. It must break up into small plants in small towns and villages, where the workman can have a piece of ground and make himself sure of subsistence at least."

The New Ford

Mr. Ford is backing this belief with practical deeds. The new car which is to come forth this spring has been designed deliberately to permit as many parts as possible to be made in scattered plants. At peak, Ford has 5,200 suppliers of parts; he says it should be 50,000.

Mr. Ford himself doesn't say much about his new car—the "economy" car that is to follow the "baby Lincoln" unveiled last week—but the men in his organization are excited about it. "Mr. Ford has made it his own personal job to design it," they say, "and when he does design a car himself, things happen. It will be as good as last year's V-8. It will embody certain new principles. It will be bereft of fancy features. The price will be 'way down.'"

In his restless moving about the room, Mr. Ford eventually came to rest on the wide embrasure of a window. He rocked one knee between his hands and

suddenly broke into the talk about the new car.

"I thought it was time to get back to work," he said. "You know, I don't think anybody has done any work for years. Take cars—there haven't been any new cars. Just new fronts and new fixings. It was the lazy way. You couldn't supply the market, you could make money. And that's what people got to thinking about, making money, not making good things for people to use. Of course, we got into trouble. You can't do that kind of thing forever.

A Car's an Investment"

"A car's an investment for most people, now isn't it? Well, I don't think people nowadays are going to make investments unless they see that they are going to get something good that will last."

"There are millions of folks who just have to have a car. They have to have transportation. They've got to have economical transportation, too. Their cars are wearing out, are worn out. There, we think, is our market."

That naturally led to talk about the farmers and their plight. Mr. Ford agreed it was serious, thought there was overproduction of food crops, but believes in a surplus—"the pressure of a surplus," he says, "forces us to find new uses for the stuff. If we can't eat all we raise, maybe we can make cars out of it." He reached to the other side of the window.

"Have you seen these?" he asked. "These" were a steering wheel, a distributor shell, knobs, insulators—black, shiny, looking just as they always have looked. "Made of soy beans," Mr. Ford remarked. "Cheaper than the plastic we have used heretofore, and better, because more elastic. We raised 18,000 tons of soy beans this year. We're just trying to see if we can't help develop some crops that the farmer can sell to industry."

Soy Oil in Foundries

The fact that soy oil is being used to finish Ford bodies has been told. It is not so well known that soy oil also is being used for core-making in the Rouge foundries, and is described as more satisfactory than linseed oil, and 25% cheaper.

"Queer how I got started on soy beans," Mr. Ford remarked. "I knew nothing about them. I like to pick up a book at night when I go to bed, usually some technical book. One night it happened to be a chemical book, with some material in it on the properties of soy beans."

Cold-Weather Gadget

It was 10 below zero outside the great windows of the engineering laboratories at Dearborn. "Bitter weather," Mr. Ford mused. "Hard on cars. No matter how perfectly you build them, something, radiator, oil, grease, something the owner puts in them, makes trouble this weather"

He went on to reminisce about a zero night 27 years before, when he drove to a dinner party in one of his early cars. He worried about parking it; finally hit upon the ingenious notion of unscrewing one of the oil lamps from the dash and setting it under the hood. To the astonishment of the departing guests his car started with a flip of the crank when the party was over. He didn't tell them the secret.

"I'm working on a thing like that now," he added, casually.

"Seriously?"

"Of course seriously. I mean a simple little gadget that a man can use when he has to park his car in this kind of weather. Simple and cheap. May burn crank case oil, or something like that. A little smoke wouldn't matter."

Motor Warriors

Coming of the new Ford completes the low-price class lineup as it now exists.

ADVENT of the new Ford V-8 completes the competitive picture in the low-priced field. Now the fight begins. Elsewhere are listed the salient sales points in the directly competitive field. Indirectly, the effect of this newest and largest Ford will be felt far up the price lists, well into the middle-price brackets.

The new car came to town without benefit of advertising. Last year, the new model was hailed with salvos of full pages, even before all dealers had cars. Deliveries lagged behind orders. Some orders slipped off to competitors while they waited. This year, there will be cars ready for delivery before there will be advertising.

The "baby Lincoln" with which Ford expects to get his share of the market is noticeably longer and lower. Bodies are almost a foot longer inside, are mounted directly on the frame, with the transmission and drive shaft swelling above the floor as in several higher priced cars. Even oversized people can get in and out without contortion, something which

could not be said of previous Fords. Front doors are wider at the bottom than at the top, allowing the legs to be swung instead of twisted in.

Instruments are grouped directly in front of the driver, with a small package compartment occupying the space at the right. Windshields tilt a full 20 degrees, are of safety glass. De luxe models feature safety glass all around, twin horns, and the usual accessories.

The improved V-8 engine has an all-aluminum head which makes possible

higher compression, increased speed and power. The frame is of the double-drop X type. Springs are still transverse, cushioned by 4 automatic shock absorbers. Improvements have been made in the rear axle and the ignition system.

Such is the car aimed at the present competitive market. The real new Ford is still in the works, though nearing completion. It is this "economy car" which occupies the mind and heart of everyone in the organization from Henry Ford to the last grease monkey.

tors maintains Buick in its accustomed price class, meets the demand for lower-priced cars with lower-priced makes. Right under Buick is Oldsmobile, a notch lower is Pontiac.

The B-O-P dealer program is predicated on a single thought: a dealer should not be in business unless he can make a profit. Thus, if a survey of the potential market in his district shows that, with efficient management, he can operate successfully with the franchise for a single car, he becomes an exclusive dealer for Pontiac, or Buick, or Oldsmobile. If, for instance, the Buick market in his locality will not support him, he is given the dealership for one of the other cars in addition. In particularly lean territory, the dealer may even be allowed to take on the line of another manufacturer.

These combination franchises are interesting. The Buick-Pontiac hook up is considered a "natural," has been the most popular combination; about 1,000 dealers have it. Oldsmobile has been linked principally with G.M. divisions outside B-O-P. Over 100 combinations of Chevrolet-Oldsmobile have been established in towns of 5,000 pop-

General Motors Commands

What centralized control has accomplished in its first year; how Buick-Olds-Pontiac has consolidated its position in the medium price field.

IT was about a year ago that General Motors went into the executive silences with the dealer situation and came out with the Buick-Olds-Pontiac plan (*BW*—Apr 6 '32). Since then General Motors has assembled and put into operation one of the strongest and most efficient sales forces in the industry.

"B-O-P," as this new selling machine is known, consists of a general sales manager, an assistant general sales manager, over a sales manager and an advertising manager for each of the 3 cars. There are also 5 regional managers (New York City, Detroit, Chicago, Memphis, San Francisco) and 33 zone managers, under whom are the zone representatives.

B-O-P centralizes sales and service for the 3 cars; a single body replaces the 3 factory field organizations; in each zone, there is a single warehouse for wholesale distribution of cars and parts to speed up service.

Same Men, Better Team

There are just about as many men in the field as before, but instead of being divided into 3 duplicating set-ups they now work under unified command. There are more specialists to aid the dealer, to devise new sales technique for the changed conditions. Then, too, the single, compact system is faster and more flexible, decisions on matters of policy, on dealer activities, can be made more quickly.

General Motors found out long ago that dealers were people, important people if cars were to be sold. The depression accelerated the G.M. program for the improvement of the lot of the dealers, especially the dealers in other than the lowest price field. For the depression, by hammering down prices, has raised quality. Low-priced cars today are as long and as powerful and as fast as the medium-priced cars of but a few years ago. The dealers handling

medium-priced cars have been pushed into the toughest spot.

Other makers in the upper-middle brackets have attempted to widen the narrowing market by breaking prices below the \$1,000 mark. General Mo-



The Business Week

SHELVED—An orange on a refrigerator shelf takes up as much room as a bottle of milk, so Crosley's new models feature shelves on the door which permit a better use of cubic capacity, make stacking unnecessary.

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ulation or less. In about 100 larger cities Oldsmobile and Cadillac have been combined in single dealerships. B-O-P has a total of 6,500 dealers for the 3 cars.

Wherever 2 cars are handled by one dealer, B-O-P insists that separate sales organizations be maintained, feels that a single salesman for both cars might scatter his energy and effectiveness, perhaps come down too easily from the higher-priced car.

Where there are too many dealers for a community to support (a hang-over from boom days), B-O-P surveys the situation, cuts dealerships down to a profitable level. In this painful but necessary process, the equity of the liquidated dealer is protected.

B-O-P Advantages

As a result of dealer shifts and combinations, the B-O-P cars have lost fewer dealers than the average medium-priced car; each dealer is left in a stronger position with a possibility for profit, even in depression markets; each car probably has more dealers than it would have had if the old exclusive dealerships had been maintained; the task of getting new strong dealers is made easier, there being more to offer them; and finally, weak spots have been eliminated, giving each car the widest possible distribution.

Heading up B-O-P is sales-minded Richard H. Grant, vice-president of General Motors responsible for the corporation's merchandising policy. Grant, it will be remembered, was the driving force behind the sales growth of National Cash Register 25 years ago. In 1915 he was made general manager of Delco (G.M. division) and then, 6 years later, general manager of Frigidaire. In 1924, he entered the automobile field with Chevrolet. In 1929, he gave up the sales management of Chevrolet to become G.M. v.p. in charge of all sales, service, and advertising, his present position.

Results Show Up

Grant has spent the last year in building and oiling up the B-O-P sales machine. Results are already reflected in the strong showing of Pontiac and Oldsmobile in the first 6 weeks of this year. Significant, also, is the fact that G.M. sales in the U. S. during January increased 5.4% over the same month last year, the first time since July, 1931 that domestic retail sales have exceeded the like month of the previous year.

Although its formation was accelerated by the depression, B-O-P is more than an emergency strategy. It is General Motors' solution for the difficulties which will confront all medium-priced car makers long after the depression is over. Small cars will continue to get bigger and better, making the selling of medium cars harder and harder as markets narrow.

Cigarettes Roll Down

The Big 4 presents the Little 4 with a hard problem: can 10-cent cigarettes be sold when the old regulars can also be had for a dime?

FOR the second time in this still short year, the Big 4 tobacco companies have cut the price of what the government calls "small cigarettes."

In the year-end parade of federal tax statistics, which is the place where price cuts start, these "small cigarettes" showed a consumption of only 103,585,888,886 for the year as against 113,449,048,657 for 1931, a drop of 8.7%.

To the aggressive George Washington Hill, president of American Tobacco, these figures do not mean that people smoke fewer cigarettes. He believes that "the number of cigarettes actually smoked (not merely manufactured and taxed) has increased at a rate which not only absorbs the decline, but shows that the advance in cigarette smoking has continued at the normal rate of increase during these two years . . . a conclusion easily substantiated by addition of estimated roll-your-own figures to the government figures for 'ready-made cigarettes.'

Back of the Cut

It is easy to see what Mr. Hill had in mind when he cracked down the price of Lucky Strikes from \$6.85 to \$6 and finally to \$5.50 a thousand, the lowest price since returning veterans stopped bawling "Mademoiselle from Armentières," and started smoking, in civilian clothes, the brands they were used to in olive drab.

The other members of the Big 4 (Luckies, Camels, Chesterfield, Old Gold) were quick to jump into this war on the Little 4 (Paul Jones, Wings, White Rolls, Twenty Grand), this crusade to regain the trade lost to the home rollers.

By reducing the wholesale price to \$5.50, the Big 4 hopes to make the Little 4 very uncomfortable indeed. These makers of the dime brands have done to the popular blends once retailing at 15¢ what the popular blends did to the Turkish blends right after the war. Worse than that, the "dimies" have ridden free on the hard-earned advertising appropriations of their betters. They simply took over a ready-made market and a not unnatural desire to economize.

On the floor of the Stock Exchange, the cut was reflected in brisk trading as shorts hastened to cover when confirmation of the long-rumored cut came through. In the trade, retail prices were chiselled to match. A&P. dropped to a flat 10¢ a pack, \$1 a carton; Schulte,

which is in the tobacco business, contented itself with a cut to 2-for-25¢.

At \$5.50 a thousand, less 10% and 2%, the cost to the retailer is \$4.85 a thousand, \$0.097 a package of 20. Of this, 6¢ represents the cost of the portrait of DeWitt Clinton which seals every package of 20, leaving 3.7¢ which must include the tobacco, paper, cellophane, manufacturing, and such things as national network programs, 24-sheet posters, 4-color covers, and dividends.

The "dimies," which give a full cent profit to the retailers, have even less margin (BW—Nov 9 '32). Now, they must compete on their own price level with the Big 4. Without the price differential, without the pressure of advertising, can they keep their customers? With only a 3¢ margin, can they meet the price cut? On the other hand, with advertising pressure to maintain, can the Big 4 make money at this low level? These are the questions which the trade is asking.

To the Big 4, apparently, the question of making money at this time is secondary to the importance of dominating the market.

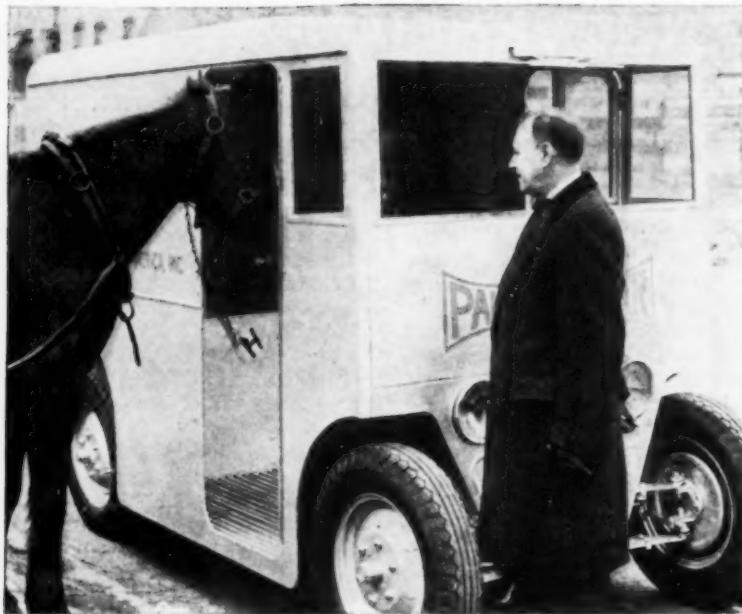
Clean Shirts

Shirting fabrics manufacturers continue aggressive policy, this time against false "pre-shrunk" labels.

As an example of what can be accomplished by vigorous cooperation within an industry, textile men like to point to the results accomplished by the shirting fabrics group of the Textile Fabrics Association. It has established uniform trade practices and clean merchandising methods with considerable success. Noteworthy some years ago was the effective way it cleaned up the abuse of the "English Broadcloth" label, prosecuting every case to the limit.

Now every shirt is "pre-shrunk," if you believe the label. The group has collected samples of shirt as evidence and is launching another fight, again with the cooperation of the Federal Trade Commission. Boldest shirt makers are using the label "pre-shrunk" without subjecting fabrics to any shrinking process whatever. Others use the words "pre-shrunk" in large letters, beneath in fine type, "collar."

False claims of fast colors and fine counts also will be prosecuted.



PAK-AGE-CAR—The milk wagon horse, which knows all the customers, looks over the new door-to-door delivery truck. Easy to hop on and off, it can be driven without sitting down. For fleet use, it has been made easy to service—the motor and transmission are at the rear so the whole power plant and rear axle can be pulled out, exchanged in 15 minutes. Wheels are independently sprung; the motor, little bigger than a derby hat, is well muffled for early morning use. A single lever releases brakes, operates clutch.

Acme

Bell-Pushers' Blues

Door-to-door selling, overcrowded before the depression started, has become increasingly difficult since. So companies it once profited are adopting new methods.

REBELLION—spontaneous rebellion—is sweeping through the ranks of American housewives. Daily in hundreds of homes, they or their servants hear the door bell ringing, peek to see who it is, conclude that it is just another canvasser, leave the bell unanswered. Daily grows the complaint among house-to-house salesmen that they no longer can make a living, that the days of this type of selling are numbered unless things change rapidly and drastically.

Up to a few years ago door-to-door selling, as conceived and practiced by a few first-class highly responsible manufacturers, made big profits. Sales could be increased at will by merely increasing canvassers; selling costs were low. However, as the effectiveness of the system became apparent, more and more concerns proceeded to adopt it. A comparatively small corps of well trained, highly dependable canvassers, representing responsible manufacturers or distributors, grew quickly into an army of dubious characters, many offering goods or services of exceedingly doubtful value at this doorstep point of least resistance.

Resentment began to appear first in the suburban areas surrounding great cities, considered the most fertile territory by almost every sales or crew manager. From there the rebellion has spread over the continent.

Echoes of slamming doors began to worry the executives of important concerns, committed to this type of selling, long before the depression. For instance, Real Silk Hosiery Mills, largest exponent of the art, attained the highest volume of sales in 1926 when its 9,000 bell-pushing salesmen disposed of 1,623,373 dozen pairs of hosiery and collected \$18,977,232. Thereafter, sales declined slowly until 1930, were reported to have dipped 25% in 1931 though no totals were published for 1931 or 1932.

Fuller Brush Co. developed house-to-house selling to an exact science. Its salesmen are carefully selected, painstakingly trained. The "Fuller Brush man" enjoyed a preferred status among bell-pushers. Yet in recent years even his popularity has waned. This company reached its sales peak in 1927 when it

reported \$13,771,496. By 1931 it had dropped nearly 30% to \$9,744,272, despite the fact that numerous items had been added to the line and an increased number of men thrown into the field.

Not even the intimacy which can grow up between customer and sales men when calls are made at regular and frequent intervals has been sufficient to stem the tide. Jewel Tea Co., Inc., has for many years sold a very complete line of food products through wagon salesmen. The company's highest average weekly sales—\$277.68 a unit—was reached in 1928. From that peak sales declined to \$159.63 a unit in 1932.

Back to the Stores

Perhaps no concern has made a more spectacular bid for premier honors in the door-to-door selling field than Eureka Vacuum Cleaner Co. In every important city it established sales and service headquarters for large crews of canvassers who systematically comb all the surrounding territory. In 1927 it reported sales totalling \$12,780,161. In the following 4 years it saw a drop to 33% of that volume and for 1931 \$4,296,521 with an operating deficit of \$1,163,096. Then it changed policy. Branch offices were closed, crews dismissed and wholesale and retail outlets previously abandoned were once more cultivated. While sales for 1932 have not been reported a preliminary statement shows a 1932 operating profit of \$48,110.

The decline of house-to-house selling may be accelerated by another factor. During the first 2 years of the depression concerns engaged in it found a steadily higher grade of salesman becoming available as concerns in other lines of business trimmed down their forces. Subsequent door-slammimg has changed all this. Good salesmen refuse to expose themselves to it. More get disgusted and quit. In some sales districts turnover of sales personnel has increased 200% to 300%.

Fuller Starts Chain

To offset these factors, build sales, provide a more effective local background for its field force, Fuller Brush Co. has established a chain of 6 retail stores in Connecticut, Massachusetts and Rhode Island. If the desired results are obtained the chain will be extended. Partly for similar reasons, partly to supplement the effort of its salesmen, Jewel Tea Co., Inc., has started and is extending a chain of Jewel Food Stores.

The seriousness of the rebellion is confirmed by the results of a survey made under the direction of Dr. Louis Bader of the New York University School of Commerce covering the towns of White Plains and Freeport, N. Y., and Rutherford, N. J. Bell-pushing on 1,000 door-steps of these towns brought no answer from one third, although obviously there was someone at home in

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every case. Only half of those who did answer said they generally listened to canvassers' stories; less than 25% admitted that they occasionally bought from a canvasser. Nearly all expressed a preference for buying required goods in stores; only 5% expressed any desire to buy from canvassers.

Independent surveys have revealed that in some urban and suburban territories an average of from 12 to 17 canvassers ring for admittance in a single forenoon. Proposals have been made

in some municipalities to impose high license fees upon all house-to-house salesmen.

Some concerns that still sell by door-to-door solicitation have adopted a new strategy. Instead of a limited number of regular canvassers, they engage a multitude of men and women from whom no more is expected than that they will sell their own relatives and friends, capitalize all available contacts, then drop out and make room for others with new lists of relatives and friends.

heard-of thing to find that a cut in rates which appeases public sentiment actually brings in greater revenues.

The Wisconsin Argument

There is a powerful economic argument, also, in favor of reduced rates. It was stated by the Wisconsin commission after examination of a host of economists. If utility rates remain rigid while commodity prices and wages fall, it means that a greater proportion of consumer incomes is diverted from the purchase of commodities to the purchase of utility services. Also, since services bearing rigid prices enter into the cost of manufactured commodities, millers and textile men find it impossible to scale their prices down to the falling market. As their profits disappear, they cut wages, curtail employment, fail—launch the train of consequences that accentuate depression. Rigid utility rates therefore are a barrier to recovery.

More important than logic, however, in many instances, will be the public temper, aroused by outrageous abuses of some of the more notorious manipulators of investment holding companies which so often wore utility labels. The public is not apt to draw fine lines of discrimination between colossal fortunes made, and lost, in such manipulation and the modest returns paid the stock-

Electric Rates

Pegged rates are too conspicuous in a world of falling prices to escape attack, and they probably will give way, but the electric utilities can offer a strong defense.

ELECTRIC power and light companies are feeling increasing pressure for reduction of rates. This was foreseen as inevitable; the spectacle of power and light prices remaining pegged in a world where the price of everything else has crumbled could hardly escape public attention. Most sagacious leaders of the industry agree that there must be concessions. But they are marshalling their forces for resistance, nevertheless. They may not hope to preserve present rates, but they would not be competent trustees of their properties if they did not prepare the best fight possible against demands certain in many localities to be extreme and ruinous.

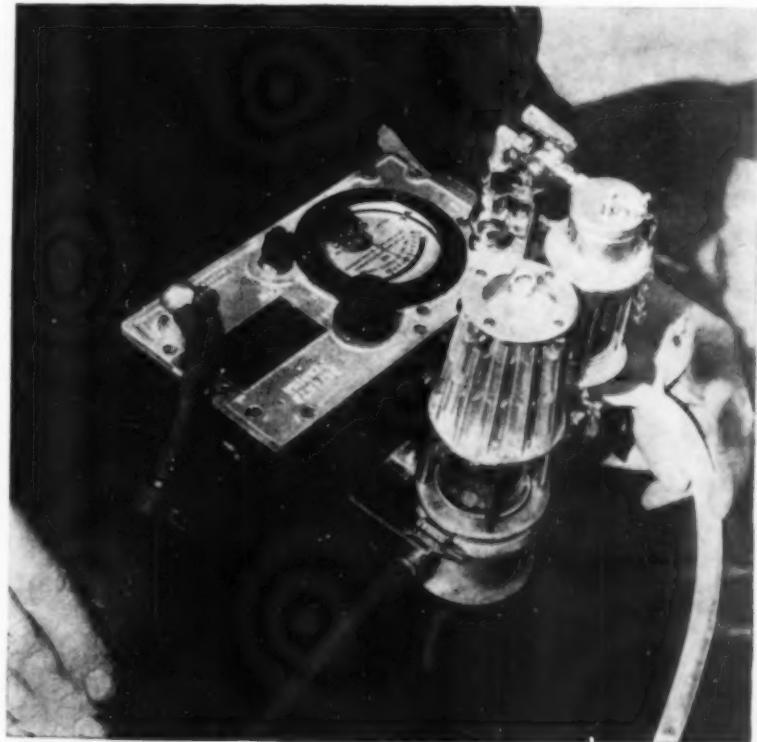
Were Under Scrutiny

They can array strong arguments. By the nature of the business, invested capital bears an enormous ratio to annual receipts, which means high fixed charges. If it be argued that bonded indebtedness is unduly high, the utilities have the rather devastating retort that the investments have been made under the scrutiny and with the approval of the people's own representatives, the regulatory commissions.

These same commissions consistently have forbidden the utilities to pay off indebtedness out of current receipts; instead all the pressure has been for low rates. The implied bargain was that if rates could not be increased to pile up surpluses or pay off debts in good times, the utilities were to be protected against disastrous cuts in bad times.

The utilities have another telling point, too. For years, the trend of rates has been downward. Time and again, rates have been reduced, almost as often voluntarily as through rate fights. The record of Philadelphia, with 11 rate cuts since 1922, is not an isolated freak. In general, the utilities may claim with justice that electricity is one of the cheapest of things.

But the case is not all one-sided. Public discontent is a powerful weapon. Newspaper agitation against rates, for example, may reduce revenues before ever a complaint is filed. Consumers, told every day that rates are high, become conscious of their light bills, and industriously snap off lights, forswear the use of appliances. It is not an un-



ELECTRIC NOSE—This gas detector was developed by the Consolidated Gas Co. and the Linde Air Products Co. Here it is being used to determine the condition of the air in a manhole before beginning work. A long tube has been dropped into the questionable atmosphere, a sample has been sucked into the analyzer to determine the kind of toxic or explosive gas present, and the strength of the gas is shown on the meter dial. Oil refineries also find it useful.

holders of the underlying operating companies.

Moreover, the utilities for years have relied upon the "replacement value" theory of rate-making, the "reasonable return," or the "prudent investment" theory—with the first the favorite because "replacement" or "present" value was always higher, for many years, than first cost. But now that theory is about to turn and bite its sponsors severely, in the tenderest part of their ananomies. Rates based on today's prices for copper, labor, poles, buildings, rights of way do not appeal to utility operators. But they should have foreseen that when they staked everything on the doctrine.

What Is Reasonable?

What is a "reasonable return" nowadays? Banks are glad to get less than 1%; many great industries are earning a deficit. And what is, or was, "prudent investment"?

Plainly, there are the makings of a thousand grand fights in 48 states and the District of Columbia. Many of them are under way. A hasty canvass shows state-wide rate structures under fire in a dozen states. Specific rates in hundreds of localities are under review.

Among the large cities where rates are at present under attack or recently have been cut are: Detroit, Pittsburgh, Kansas City, Memphis, St. Paul, Louisville, Akron, Cambridge, Mass., Washington, D. C., Baltimore, Philadelphia.

At least 5 states have before their legislatures proposed statutes which would prohibit merchandising of appliances by utilities; 5 states are considering bills which would tax energy generated. How many more such bills will be introduced before legislatures adjourn is highly con-

jectural and so is the probable mortality of those already under consideration.

The industry, closely studying the situation, reaches the conclusion that there is no reason to become excited; the crop is no bigger than usual, and there is nothing unfamiliar about the type of bills introduced. Many are introduced and few are enacted, in any given year.

Feb. 1; it offered free wiring for the first 500 applicants, and was swamped by eager customers. Rental is fixed at \$1.30 a month; the company will move any range installed in 1933 once up to the end of 1935. The range is a specially designed outfit.

Bank Concentration

Half of the bank deposits are held by 1/2% of the banks. Industrial consolidation has had the inevitable result.

AMERICANS fondly believe that because we have 20,000 banks in contrast to some 17 banks in England, 12 Federal Reserve Banks to one central bank in England, there is no concentration of bank funds here. And once again the year-end banking figures have belied this belief. They show that 10 banks, constituting 1/20% of the total number of banks, have over one-fifth of all the deposits in the commercial banks of the United States. A hundred banks, constituting 1% of all the banks in the United States, have 50.1% of all deposits. Concentration of bank deposits occurs in the banks in the larger cities of the United States in response to the concentration in industry and manufacturing. The smaller banks in the smaller towns have remained small and have disappeared because of suspensions to the tune of over 10,000 in the last 10 years.

At one time the small town was the haven of small individual enterprise, served by the unit bank of which the local business men were directors, in which they deposited their funds, and from which they borrowed money to meet the credit needs of their self-liquidating businesses.

Situation Has Changed

Whether we like it or not this situation has changed. In place of the unit store we now have chain stores; in place of the small independent manufacturing plant we now have the local link in a vast industrial enterprise; in place of the small utility we have the town served by what is likely to be a region-wide utility.

The hotel, the newspaper, the garage, and scores of local enterprises are now managed by employees of large corporations, the corporations themselves doing their financial business in the industrial centers. The change in industrial life has taken away from the small town the profitable business of extending loans and banking deposits, and has transferred it to the large banks.

This changing tendency in American life in itself is largely responsible for the concentration of banking assets, law or no law, and it cannot be checked by making branch banking illegal.

Rice and Rates

Arkansas utility gears its rates to the 1933 price of rice.

MANY customers on the lines of the Arkansas Power & Light Co. are rice farmers; they use an average of 400 kilowatt hours per acre yearly to operate irrigation pumps. The utility, through Frank Wilkes, vice-president and general manager, has just announced a sliding scale of rates for this season. If rice sells at 40¢ a bushel or less, the company will accept \$5 per acre; will add 10¢ an acre for each 1¢ increase between 40¢ and 50¢. If the price is above 15¢, the company will add 15¢ an acre, also 1½¢ per acre if more than 400 kw. are used.

In the event the rice planter finds his bill would be lower at the present rate schedule, he can use it.

Rents Ranges

Hartford offers electric ranges for rent at \$1.30 a month.

HARTFORD ELECTRIC LIGHT Co. launched a rental plan for electric ranges



STORE-DOOR DISPLAY—This motorized sample case carries Westinghouse refrigerators, ranges, washing machines, food mixers, toasters and other home appliances. On the road, top and sides are telescoped to keep the body within ordinary truck dimensions; on display, sides are expanded, top raised.

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Consider this commuter

This woman lives on an upper floor of your building. Her daily comings and goings are dependent not upon trains and trolleys but elevators. She is rather nervous and impatient of delays. Are you sure your vertical transportation facilities are satisfactory to her?

THIS question of elevator service is an extremely important one, as the above clearly indicates. And good service depends largely on the kind of care and attention that elevators receive.

Some years ago, Otis Elevator Company became convinced that no one could better care for an elevator than its maker. At that

time the Otis Maintenance Service was inaugurated. Today this Service is available to you at a rate far less expensive than dissatisfied tenants and empty apartments.

Under Otis Maintenance, elevators are examined at frequent and regular intervals. Otis-trained mechanics go over the motors, test the cables and brakes. They

make many exacting adjustments that only an old hand at the business is equal to. They replace a worn part before it gives trouble. They keep an installation running smoothly, swiftly, silently.

We want you to have first-hand details concerning the Otis Maintenance Service. Will you have your building manager telephone the local Otis office and ask an engineer to call? Otis Elevator Company, offices in the principal cities of the world, or at 260 Eleventh Ave., New York City.

Potash Independence

New potash-producing group starts operations that finally promise the fertilizer market an opportunity to "buy American" all along the line.

A DECLARATION of independence of foreign supplies of potash may soon be issued by American users as the result of the entry of a new potash group wholly American-financed and American-owned. The newcomer is Potash Co. of America, organized and directed by G. W. Harris of Denver, with support of Denver and Chicago capitalists. His company has just signed land leases, is soon to sink a mine shaft near Carlsbad, N. M., in territory proven by core drillings to be underlaid by huge commercially workable potash minerals.

Working Public Lands

The new mine is only a few miles northwest of the twin-shaft enterprise of the U. S. Potash Co., half owned by Southwestern oil magnates and half indirectly by British borax interests. Both the older concern and the new enterprise are operating largely on public lands leased from the federal government, but both also have mineral rights on adjoining state lands and other property privately owned.

The potash (K_2O) production capacity of these 2 mines combined with the recovery capacity of British-owned American Potash & Chemical Co., Searles Lake, Calif., are more than 250 million tons per year, substantially more than current domestic needs for both fertilizers and chemicals. Further enlargement of capacity, especially in New Mexico, could easily raise American output to more than 400 million tons of potash, equal to the peak requirements of 1928 to 1930, the biggest fertilizer years in history.

Sources of Production

Several minor sources of domestic production continue, including by-product recovery from cement and alcohol manufacture, the latter by U. S. Industrial Alcohol Co. But hitherto the main source of supply has been imported potash handled in the United States by N. V. Potash Export Mfg., American selling agency of the European potash cartel that includes both German and Alsatian producers. Frequent rumors have indicated that these foreign producers have indirectly obtained control of both the California and the older New Mexico enterprises. Denial of that rumor is always assured from official sources; and very real competition in marketing indicates independence in selling policy on the part of the cartel importers, the British-controlled California enterprises, and the quasi-British

New Mexican mine. With a fourth and unquestionably independent American enterprise potash users anticipate even greater security and certainty of competition.

Big users are now expected to be more willing to cut free from imported supplies purchased under annual contracts. When there was only a single mine some apparently feared to do so. Incidentally, that domestic importer, as a Dutch company, avoids the United States laws forbidding monopoly selling.

Potash prices have been low for several years and forecasts do not indicate a much deeper cut by domestic producers in their effort to secure a generous share of the total business. But users seem now protected against any rise in price as there now exist certainly 4 independent sources, 3 subject to domestic laws against price agreements.

This latest development means that all 3 essential plant foods for fertilizer manufacture are now abundant from home sources. In phosphates that independence has always existed. Only within the last few years has the nitrate



Keystone—Underwood

SNAKE-KEY—Thieves find it hard to pick this new German lock which has a twisting keyway negotiable only by the proper combination of lugs and links on its flexible key.

supremacy been proven. Now U. S. potash is sure. This leaves prices of fertilizer materials dependent on domestic considerations, not at all on price policies of foreign monopolies.

Guide to Firing

Since competition with business makes government jobs, the Shannon report may be embarrassing.

As a handy guidebook on what to abolish when the Roosevelt administration gets around to government reorganization, the report of the Shannon committee on governmental competition with business may prove to be as embarrassing as the spoilsman's handbook on patronage. Many government activities competing with private business provide commodious room for jobs and every Democratic congressman knows that these are in great demand.

Where the committee doesn't specifically recommend that the government retire from the field in favor of private business, it leaves a cost-finding rule to decide the question. This blanket recommendation that all government agencies be required to install a uniform system of accounting containing all elements of cost-finding sanctioned by the best commercial practice is, perhaps, the committee's most substantial contribution to the eventual solution of this bedeviling

question of competition with private business.

The committee to which many industries appealed for protection last spring has startled them by proposing, in turn, to take the profit or, to be exact, extraordinary profits out of war. It would have all private facilities necessary for war purposes commandeered, to be returned in their pre-war condition after the closing of the war, together with a reasonable return on invested capital for the period.

The committee's report includes an ex post facto recommendation that the Farm Board's crop stabilization activities should cease. With reference to public works, it recommends that architectural supervision should be centralized and that actual work be placed in the hands of private architects, engineers, and contractors. The federal barge line would be discontinued and offered for sale. Army post exchanges and naval

stores, except in outlying locations, would be abolished. So would the manufacture of uniforms, paints and varnish, and other products of military and naval plants.

How It Might Work

The Government Printing Office would buy, instead of making, paste, blank books, and other "shelf" items. Helium for the dirigibles and blimps would be obtained, in part, from private plants. The Post Office would stop soliciting parcel post business and raise rates to cover the entire cost of the service. Veterans would be housed in outside hospitals as an alternative to building new ones. The Coast Guard would not salvage ships except in emergency.

In general, the report recommends that no government agency engage in any new or expand any present manufacturing enterprise without the approval of Congress. Suspecting that it may have overlooked something, the committee recommended that all department heads be directed to investigate any activities competitive with private business and report to Congress.

As a report, it is a monumental job, but Congress doesn't have the time to read it right now.

Japanese Bulbs

Tokyo keeps a close record of the light bulb industry: how many are made, where they are sold. The U. S. is best customer.

JAPAN's year-end trade figures, when finally released, will give the true story of the boom in certain exports. What the data will reveal about electric light bulbs is already evident in the breakdown of exports for 11 months.

	Number (000 omitted)	Value
1919	11,411	¥1,677
1924	21,665	1,829
1929	96,759	5,500
1930	101,596	5,316
1931	151,473	5,875
1932 (11 months)	240,760	8,917

Of electric light bulbs imported into the United States during 1931, 80% were Japanese, and they accounted for 20% of domestic consumption. The Japanese boast that their production costs are about one-third those in the United States.

Where Japan sold the 151½ million exported bulbs in 1931 is well known. The United States took more than 67 millions. The British took another 31 millions. Hongkong, which is a distributing center for a large area, and a center for transshipment, took nearly 12 millions. British India, Australia, and the Dutch East Indies took about 3 millions each.



"Brings the local dealer definitely into the *national* program"

.... says the NATIONAL BROADCASTING COMPANY
about "WHERE TO BUY IT" SERVICE

"It is obvious," says the National Broadcasting Company in its merchandising text book, "that an advertiser can not announce his entire list of dealers in a network program. A solution has been found and used by several NBC advertisers in Trade Mark Service, or 'Where to Buy It' Service, offered by telephone companies."

"Where to Buy It" increases sales by identifying your dealers with your trade name. Authorized dealers are listed under your trade mark in local telephone books.

Your radio broadcast or publication advertising then directs prospects to these listings. Prospects simply look for your brand name in the classified directory, and find names, addresses and telephone numbers of local dealers.

Write or telephone for 1933 rate card and descriptive literature. Address: Trade Mark Service Manager, American Tel. & Tel. Co., 195 Broadway, New York, N. Y. (EXchange 3-9800)—or 311 W. Washington St., Chicago, Ill. (OFFicial 9300).



CLASSIFIED TELEPHONE DIRECTORY

Coal.—(Cont'd)

MA rkt 2-0962	MA rkt 2-9715
W. J. 2-0918	WA rly 2-4993
MA 2-6950	MI tehl 2-9328
MI tehl 2-8947	MI tehl 2-3457
MA rkt 2-8613	MI tehl 2-9890
MI tehl 2-9890	MI tehl 2-9890

blue coal

America's Finest Anthracite color-marked for your protection. The blue tint is your guarantee of better, more economical heat. Authorized dealers listed below.

WHERE TO BUY IT

Album Sanford 102 Martas... MI tel 2-3664
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More Mortgage Distress

Realty Stabilization Corp. to aid in the refinancing of maturing guaranteed mortgages. R.F.C. will extend loans of \$100 millions and guarantors will support the loans by \$10 millions in stock.

NEW YORK CITY is to have its miniature Reconstruction Finance Corp. but it is to deal only with guaranteed mortgages in the metropolitan area. The new Realty Stabilization Corp. will have about \$10 millions capital subscribed by New York City guarantee companies and will be able to borrow up to \$100 millions from the Reconstruction Finance Corp. based upon mortgages that must be 10% below present-day real estate valuations.

The organization of the Realty Stabilization Corp. staves off the crisis in guaranteed mortgages which has been rapidly approaching. Out of \$8 billions total mortgages on New York City properties, approximately \$3 billions are guaranteed by local companies and approximately \$700 millions of these mortgages fall due this year. In general, guaranteed mortgages are drafted to mature in 4 years. The volume of maturities this year exceeds one-quarter of the total volume of guarantees because a considerable volume to which an 18-month clause has been applied also matures. This clause permits a year and a half grace to the companies guaranteeing the mortgages in repaying the principal on mortgages where the property owners themselves have defaulted.

Now Using Grace Period

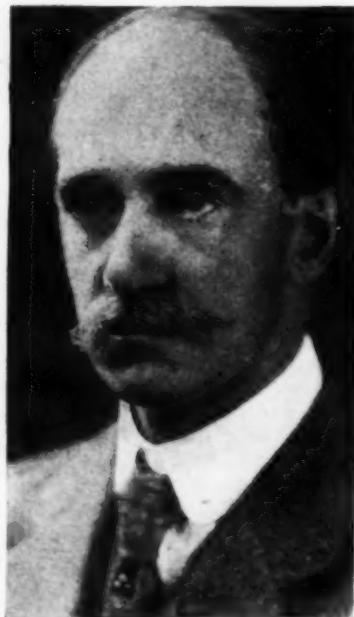
The guarantee companies usually have not availed themselves of the 18-month clause, and when the property owners defaulted they have preferred to make good the mortgages promptly and themselves absorb immediately whatever loss there was, rather than bring the guaranteees into disrepute by a waiting period. Early in 1932, however, the guarantee companies were obliged for the first time to avail themselves of the delay and by June, 1933, a large volume of defaulted mortgages will have to be taken up by them.

The organization of the Realty Stabilization Corp. is the first step to obviate further defaulting and the more serious consequences of loss of confidence in the guaranteed mortgages and probably in all mortgages.

The plan is for the Realty Stabilization Corp. to advance loans for refinancing mortgages which fall due and are guaranteed by the guarantee mortgage companies. It is expected, however, that before public funds will be advanced, adequate concessions will be made by the holders of first mortgages and by the guarantee companies. There

will be a writedown of interest rates and a writedown of mortgages in an amount supported by present-day appraisal values of income. A reduction of 1% on the \$8 billions of mortgages now outstanding would amount to \$80 millions, which, together with the budget reduction in taxes of \$88 millions, would reduce the burden on New York real estate by nearly \$170 millions.

The actual working of the scheme will be somewhat as follows: Let us assume



Underwood & Underwood
WILLIAM CHURCH OSBORN—Attorney, corporation director, president of the Children's Aid Society, trustee of the New York Society for the Relief of the Ruptured and Crippled. He will head the "R.S.C."

that a property in New York City has maturing a guaranteed mortgage of \$5 millions bearing 5% interest. The owners of the property find that they cannot refinance this mortgage and the guarantor also is unable to refinance the mortgage and pay off the demands of the bondholders. Under these conditions, the guarantor, if he has subscribed to the Realty Stabilization Corp., will apply for a loan, setting forth all the factors. It is possible that under the new conditions of rental and real estate values it will be necessary now to permit a first mortgage of \$4 millions only, or

a writedown of 20% in the mortgage. The property owners, together with the guarantee company, will be compelled to raise \$1 million either by offering a second mortgage for that amount or by subscribing that sum themselves, but they will now be able to get the additional \$4 millions first mortgage loan from the Realty Stabilization Corp. pending their ability to sell bonds. Before paying off the old bondholders, however, these bondholders will be urged to exchange their 5% guaranteed first mortgage bonds for 4% first mortgage bonds and accept 20% payment in refunding, in cash or second mortgages according to whatever agreement can be made with the property owners or the guarantors. That is, an institution holding \$1 million worth of the original bonds at 5% will be told of this agreement and will be asked to accept \$800,000 of new bonds at 4% and receive \$200,000 in cash or a second 5% mortgage for that amount.

Cooperation Is Necessary

The cooperation of the bondholders will be necessary for this. Institutional bondholders such as savings banks, insurance companies, and others have already indicated consent to this readjustment.

The all-around advantages will be as follows: To the bondholder it will mean that he gets new bonds on property on which the mortgage is written down to present-day value, thus giving him greater security. It also liquidates the part of the mortgage that might otherwise be considered marginal. To the property-owner it is of advantage in that it enables him to refinance his mortgage at a lower interest rate, in conformity with present-day earning power, without going through the process of bankruptcy. To the guarantors, it is of advantage in that their guarantee to the bondholders is made good.

Interest Cut

Insurance company notifies mortgage debtors interest now is 5½%.

THE Acacia Insurance Co., in Washington, D. C., has notified all its mortgage debtors that their interest will be reduced from 6% to 5½%. There was talk of marking it down to 5%; it may have been decided that the psychological effect would be greater if the reduction were made in two bites.

The move was inspired by a general desire to help in creating a more cheerful atmosphere and encouraging buying than by any immediate pressure on the insurance company.

U. S. Chamber of Commerce officials have been encouraging this sort of thing. They take a radical stand on interest rates. They think mortgage rates are headed for 4%.

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Gold Zlotys

Poland has returned to the gold standard at a time when many countries have found it impossible to maintain it.

Few persons differentiate carefully between the gold standard and the gold exchange standard. Consequently, when Poland a week ago declared that the country had returned to the gold standard as of Feb. 8, it was not generally realized that this shone as a good deed in a dark and naughty world.

When a country is on the gold standard, the currency is backed by gold. When an American presents a \$1 bill at a bank, technically he can demand 23.22 grains of gold for it. When Britishers, or Frenchmen, or Poles accumulate some dollars and present them at the Federal Reserve Bank in New York they can get the promised amount of gold for storage here or for actual shipment to their own banks. When the United States refuses to fulfill this promise to repay in gold, it is no longer on the gold standard. Britain suspended the promise more than a year ago, and the pound sterling is no longer worth \$4.86.

Gold Exchange Standard

When a country is on the gold exchange standard, instead of covering its bills with actual gold, it promises to cover them with the currency of countries on the gold standard. This is not the same thing as the gold standard for this reason:

On 23.22 grains of gold, the U. S. Federal Reserve, for example, at 40% reserve would base \$2.50. On \$2.50 Federal Reserve credit, commercial banks base \$25 of credit. Now if this \$25 is taken by the central bank of some foreign country as a base of credit at the general rate of 40%, currency totaling \$62.50 can be issued in that country on the base of the 23.22 grains of gold held as reserve in the Federal Reserve in New York.

Back to Gold

Poland, since 1925, has been on the gold exchange standard. It met its demands for dollars with dollars, not gold. At times during the year when Poland was buying more from the United States than she was selling to Americans, the supply of dollars might run very low, might even be exhausted for short intervals. Under the gold exchange standard, Poland was not obliged to sell gold and buy dollars. Creditors could simply be asked to wait until dollars were available.

Last week, Poland contracted to cover her bills in gold instead of the currency of some gold standard country. It is a favorable development because the currency of the country is no longer subject to the shifting of the gold standard in other countries.

3rd Printing . . .

in response to continued demand—

The AMERICAN CONSUMER MARKET

No sales-minded executive should be without this economic document. Prepared after exhaustive study by the editors of The Business Week and run serially from April 27 to September 7, 1932. The only existing analysis of *all* expenditures of *all* consumers for the past 12 years. In a single booklet, equipped with charts and tables. Order your copy now—50c.

THE BUSINESS WEEK

330 West 42d St., New York City

High Speed

NERVES?

■ We moderns pay a price for our mile-a-minute life. We rush our digestions, scant our sleep, stretch our nerves . . . and wonder why flesh-and-blood rebels.

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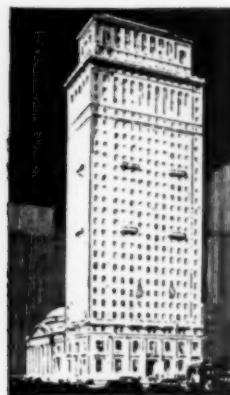
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Hitler's Farm Program

Newest protection for the German farmer ruins United States' second best export market for lard. Reich tariff program has tightened steadily in last 3 years. Hitler believes in absolute self-sufficiency.

THE United States is caught by the first move of the Hitler government to aid German farmers by restricting imports. The lard duty is increased 500%, as of Feb. 15. This means that German importers, if they want foreign lard, will be forced to pay a duty of \$11.90 on each 220 lb. shipment instead of the old \$2.38. Naturally, they aren't going to buy much lard outside the country.

It means to the United States that American packers who sent 174 million pounds of lard to Germany last year, valued at about \$12 millions, have lost one of their biggest markets. It means more distress in Iowa where the corn is raised, the hogs fattened, to produce this lard. More than 80% of the entire German market was supplied from this country.

U. S. on the Spot

There was no discrimination in last week's decree from Berlin. It happens that the United States was the largest supplier of lard. The duty on fresh meat was doubled by the same decree. Holland, Denmark, Australia, and Lithuania are principally affected by this measure. Previous decrees establishing import quotas have ruined a lucrative trade in butter for the Danes and the Swedes. Wheat, barley, and corn imports have been reduced by high tariffs and stringent import quotas. Only producers of fresh vegetables, fruits, and nuts have succeeded in expanding their markets in Germany in recent years, and there is talk of shutting out a part of this business by prohibitive tariffs unless general trade conditions improve radically.

To Germans, the explanation is simple, though not all Germans agree with the logic. Germany is on a sort of credit probation since the Hoover moratorium put an end to reparations, and the Lausanne accord more or less sanctioned it. Private creditors have agreed to help the country out of the financial bog into which it had sunk. To maintain this confidence among creditors, Germans must meet regularly the dwarfed payments which are due from them. There is one way to do it—by maintaining a surplus of exports. With an increasing number of foreign markets closed to them by rising tariff walls or new trade agreements such as the British Empire accord, there is only one other thing to do: cut imports. At the same time, of course, German farmers, most depressed of all the economic groups in Germany,

will benefit and, in turn, strengthen the internal financial structure. Labor, however, is forced at the same time to pay higher prices for food.

The agricultural situation in Germany is quite different from what it is in the United States. German production is inadequate to meet domestic demands for most staples. Every year it is necessary to import vast quantities of corn, rice, barley, wheat, eggs, fish, fruit, and wool. The Germans don't even raise enough potatoes to supply the home market.

Two Relief Moves

The German government has taken 2 decisive steps to help the farmer. One was purely financial. Mortgage relief was provided some time ago through a decree which cut the interest rate by 2%, but to a minimum of 4%. Later a mortgage moratorium was granted, first to East Prussia and then extending to about two-thirds of all Germany.

Supplementing this mortgage and interest relief, the farmer was protected through a vast system of tariffs which threatened at times to become a veritable Chinese Wall around Germany. When higher tariffs failed to save the situation, quotas were tried. Millers, for example, were forced to use a certain quantity of domestic wheat in their bread. Then, because Germany is more nearly self-sufficient in the production of rye, it was decreed that rye must be mixed in all bread until the temporary surplus was absorbed. And on other products, imports were rationed on a fixed proportion of the total for previous years.

Danes vs. Dutch

Another way of getting at import tariffs was to levy a special fluctuating duty against imports from countries with depreciated currencies. This caused no end of trouble. Denmark, for instance, one of the best customers of the Germans, watched Dutch dairymen get the bulk of the butter trade because the Dutch guilder was still "on gold" while the Danish crown was depreciated, forcing the Danes to pay the extra tariff. So much antagonism was aroused in Denmark that the Germans found it was really cheaper to allow the Danes the same privileges as the Dutch and keep their good will.

Germany has run into trouble with a dozen or more of her neighbors because of this protective agricultural policy. In Belgium, by extending the quota on Belgian coal which might be shipped

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into Germany, she kept the peace. Holland refused to hear the Reich commission which came to The Hague to "adjust difficulties." The conference broke up within 24 hours and a virtual boycott on German goods started in Holland. Italy, when the import quotas were announced, immediately cut off the supply of foreign exchange with which Italians could meet their bills in Germany. This was just another way of saying they refused to tolerate the German proposals. Sweden finally refused to accept Germany's proposals for the renewal of the commercial treaty because Germans wanted all old privileges but refused the rights to the Swedes to continue their timber preference.

"Export Suicide"

Naturally, German industry is indignant over each new move by the government or farmers which aggravates this foreign spirit for retaliation. The respected *Frankfurter Zeitung* refers to the whole thing as "export suicide." Carl Bosch, president of the Dye Trust, says the situation is really a matter of distribution, that the farmer in Germany is getting only 50¢ of the consumer's dollar whereas the Danish, Dutch, and American farmer gets between 60¢ and 75¢. The National Manufacturers Association has repeatedly pointed out that more than 8 million Germans are still supported by the country's export business.

Until the outcome of the German elections on Mar. 5, the future cannot be anticipated. Hitler almost certainly will remain in power. How extensive this power depends on the showing his party makes in the election. Germans, despite their reluctance to believe that he will have the power or the courage to carry out his campaign promises, keep glancing back at his promises: "We demand ground reform suited to national needs, the passing of legislation allowing the expropriation of land without compensation to be used for the common welfare of the people; abolition of land-interest"; and "through protective tariffs and abolition of certain imported articles of food, prices will be forced to a high level." Above everything is the haunting cry of the Hitlerites for "autarchy," economic self-sufficiency.

Warning Note

It all loomed up rather ominously last week in Hitler's initial campaign speech. "Give us 4 years to carry out 2 plans; one to bring relief to the agricultural population, one to do away with urban unemployment." Asked how he intended to accomplish this, he answered "by land settlement, and by compulsory labor service."

His new tariffs are a cautious move. It is campaign stuff. It wins farm support. It courts the favor of von Hindenburg and the von Papen clique, all of them big landholders. Not till he starts

to take over the bankrupt estates of the landlords and settle the unemployed on them will he run into new opposition. Hitler can carry state socialism much further than Bruening or von Papen was able to, if he has a clear lead in the forthcoming election.

Farm Revolt Abroad

Argentine farmers, faced by problems similar to those in the Middle West, are also willing to "take direct action."

IN Argentina, when the price of linseed declines, the farmers of Santa Fé province are affected. Entre Ríos farmers, across the river, are more distressed by low prices for beef and hides.

This year, farmers in both these Argentine states were plagued by locusts. Great swarms came out of the north; nothing was left but a niggardly stubble. Farmers, already unable to sell their crops for enough money to pay taxes, were left without even enough food for themselves and their livestock.

Local groups appealed to the government for relief. The government is poor, has been slow in meeting the demands. Delegates got tired of waiting around Buenos Aires until legislators took definite action. They returned home, organized a strike. Neighboring states have agreed to join unless relief is forthcoming. The Argentine is faced with much the same sort of farm rebellion as the United States.

What Farmers Want

Demands of the farmers are clean-cut. They want a reduction in farm rents commensurate with the reduction in prices on their produce. They want a 4-year moratorium on all commercial, bank, and rental debts. They want to be able to borrow money for agriculture at a maximum interest of 4%. They want a reduction in freight rates and the lowering of import duties on articles necessary for domestic industry. This will help them to bargain with foreign buyers of their products, which make up the bulk of Argentine exports.

Buenos Aires was taken by surprise when the order for a strike came from the Argentine Agrarian Union. The 2 provinces involved are not considered radical. They are among the most populous in the country. They are so-called "wealthy" provinces. It is difficult to fit the present rebellious attitude to the old conception of them.

Probably more than \$2 millions of relief funds will be distributed at once. It may delay the strike. But it will not be enough to clear up the situation. Some of the other fundamental demands of the farmers will need to be met promptly if the situation is to be improved on a long-term basis.



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Business Abroad

Commitments generally slow because of German political uncertainty, steady French deflation and flight of capital, spread of tariff barriers, acute unrest in parts of Latin America. Japan's industrial boom continues. Britain is optimistic. Poland returns to gold standard.

Europe

EUROPEAN NEWS BUREAU (Cable)—Most of Europe, except Great Britain, has had a case of nerves this week.

Soaring currency circulation figures in France and the steady flow of frightened capital out of the country reflects the lack of confidence of Frenchmen that the partial settlement of the new budget means a return of normal business. Almost certainly there will be strikes next week organized by taxpayers' associations. The French are accustomed to high taxes but the prospect of having to pay \$1,000 in income tax on a \$5,000 income is too much for them. On top of this, they are worried over the possible outcome of the Mar. 5 elections in Germany.

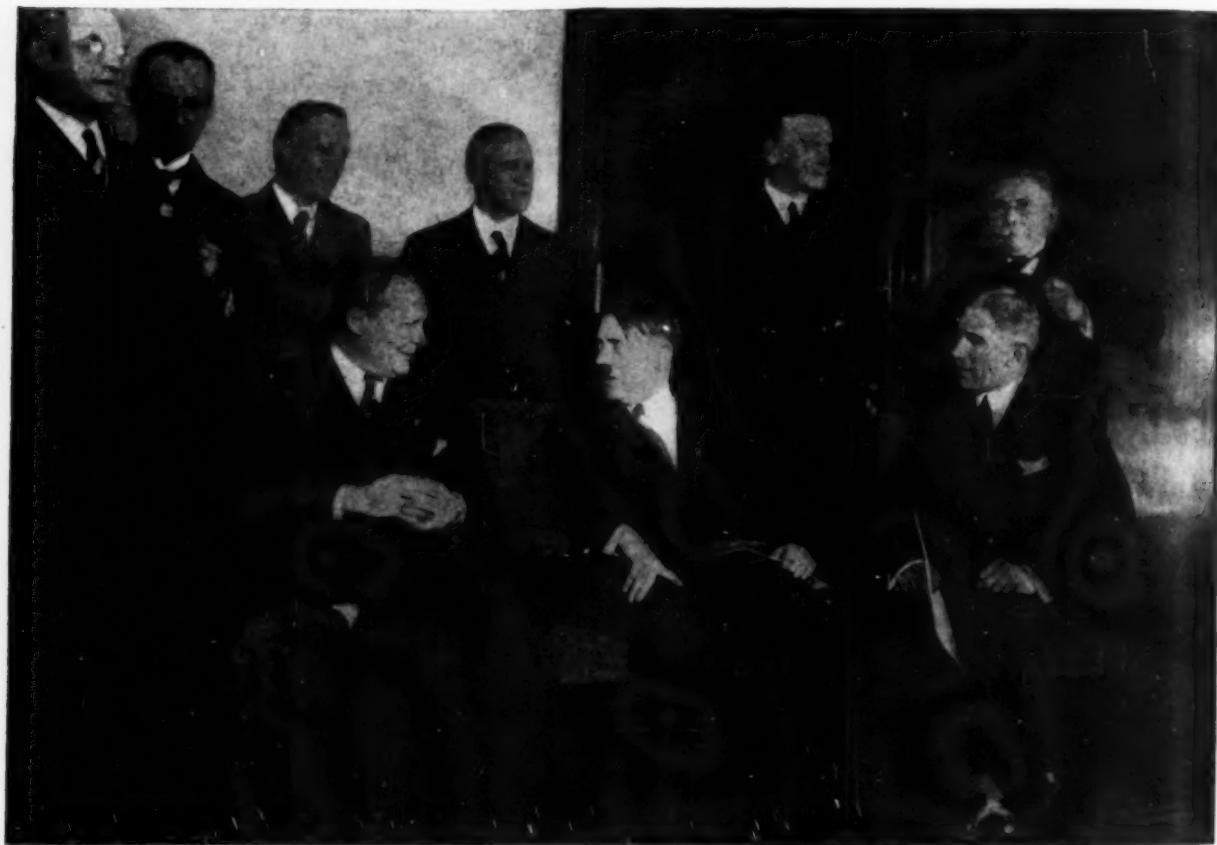
Germans are only slightly more hopeful than they were a week ago. Hitler's party has made no rash campaign promises yet. In fact, there have been a number of reassuring statements from the cabinet. The drastic increase in duties on farm products, however, has sent a shudder down the spines of the industrial exporters who know that it is bound to bring retaliatory moves. "Standstill" creditors have almost reached an accord. It is expected that their plan, when it is announced, will provide for a further reduction of 1% or more on the frozen debts, with a promise by Germany to liquidate another 5% of the obligations. But business commitments are held up pending the outcome of the elections Mar. 5.

Foreign trade tension was tightened

between Italy and Rumania. Italy, by decree, has refused to grant foreign exchange for payment of bills for Rumanian imports. The exchange, instead, is deposited with the Italian Exchange Institute where it is applied toward liquidation of frozen Italian credits in Rumania. A similar regulation already governs transactions with Yugoslavia.

Czechoslovakia, on the other hand, has eased the way for foreign trade. The National Bank has recommended that the government gradually abolish existing exchange restrictions. Commodities protected by duties will be favored, as will those coming from countries having no currency restrictions.

British business was probably more optimistic than any other in Europe this week. The gold share boom has ended without a real collapse, and interest has shifted to industrial shares, especially iron and steel. Sterling has been strong all week as nomad capital continues to flow to London. There is a growing feeling that the Canadian dollar will sink to the level of depreciated sterling. Government officials have made it clear that they expect the Washington conference on debts to be successful. Stabilization of the pound will no doubt be a major bargaining item.



HITLER CABINET—They rule Germany until Mar. 5, when the whole country goes to the polls. Chancellor Hitler is seated in the center talking with Herr Goering, Nazi Minister of Air Transport. Baron von Papen, former Chancellor, is seated on the right. The pugnacious Hugenberg, long-time friend of big business in Germany, is standing at the right.

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Germany

Cabinet makes no rash commitments during political campaign. New tariffs to protect farmer threaten export outlets.

BERLIN (Cable)—There has been no further break in business confidence in Germany this week, despite the rather grim political battle which is being fought. The new cabinet is shirking responsibility for commitments on economic policy until the election is out of the way. They have, however, said there will be no currency experiments and no compulsory conversion of present obligations to lower interest levels.

Germany Wants No Lard

Perhaps the new tariffs are the most significant move they have made (page 22). With the almost prohibitive rate which has been placed on lard imports and the large increase in the rate on meat, business is inclined to expect any Hitler government to move rapidly toward autarchy through a series of prohibitive tariffs on farm produce despite the warning of industrialists that the country is far too dependent on industrial export markets (which will retaliate) to allow this.

There was another indication of a headstrong tariff policy. France has been warned that Germans want to draw on the provision in the recently revised trade accord and raise tariffs on a number of items. France has already indicated that she will demand reciprocal adjustments.

The announcement that Siemens & Halske would pay a 7% dividend somewhat counterbalanced the news that the German State Railways, for the first time since they came completely under state control in 1924, had failed to earn expenses. Ford Motor Co. of Germany passed its 1932 dividend.

Germany has granted permission for Germans to pay foreign bills up to a total of 200 marks a month without securing special permission from the exchange control board of the government. This provision gives American firms which sell by mail order to individual German customers and ship by parcel post a new chance at the German market.

Great Britain

Sentiment buoyant; markets strong and active; gold share boom eases without a serious break. Industry gains. Outlook for railroads gloomy.

LONDON (Cable)—Britishers have been buoyant all week. The gold share boom has eased off without any ill effects on the market. In fact, the

recent steady demand for high grade industrial shares is probably due to the desire to reinvest profits from the gold share boom.

The tea share boom also has passed without any ill effect. There is a great deal of confidence that recent talks within the great producing countries will bring about some successful restriction program.

Oil From Coal

Coal districts were more or less excited over the order by the Admiralty for a 12-month supply of oil extracted from coal in the newly commercialized hydrogenation process. There is a double motive here. The coal industry, long depressed, is aided. Britain, heavily dependent on foreign sources of fuel oil, is trying to reduce this dependence. This has been encouraged particularly by the Anglo-Persian Oil episode which is now on the way to settlement, but not before having shaken British naval authorities into a thorough determination to diversify sources of supply as far as possible.

Parliament is encouraging recent bullish sentiment by reporting favorable progress on the preparations for the Roosevelt war debts conference in Washington, and the hopeful tone of negotiations now under way for new trade pacts with the Argentines and the Scandinavians.

January foreign trade returns became available during the week and showed that the unfavorable trade balance had dropped from £25.7 millions in January, 1932, to £20.7 millions this year. It was not encouraging to call attention to the general decline in the volume of trade when compared either with December or with January a year ago, so little mention was made of it.

Smaller Rail Earnings

The railroads are not flourishing. Pessimism over the outlook for rails mounted during the week when it became known that London, Midland & Scottish had lost its trustee status for prior charges on shares through its failure to attain statutory dividends. The Great Western maintained this status only by finding dividends from reserves and the sale of investments. Traffic is far below normal on all lines but new economies make the prospect better for profits when business picks up.

There are rumors around London that Governor Norman is urging amalgamation of all the smaller discount houses preliminary to an arrangement by the Bank of England for closer cooperation to control the amount of foreign paper discounted and prevent any unexpected crisis if bills are menaced by foreign houses which have overdiscounted.

An alarmist message was published in London newspapers early in the week, purporting to have come from Washington and predicting that several New

York financial houses would be likely to find themselves in a serious position early in the spring. Money markets were immediately upset by the fear that such a condition would prejudice Roosevelt against making concessions on war debts and imperil stock market soundness by precipitating a further Wall Street break.

There has been the usual bustle in London and Birmingham all week preparing for the annual British Industries Fair which opens Feb. 20 in both cities. Interest in the fair has shifted this year. The Ottawa pact has made it less profitable for exhibitors from many countries to display, though the number who have registered for the fair from outside the Empire is amazing.

Secret Vogue

It is interesting that domestic wholesale clothiers have found that for their industry, exhibitions do not pay. In the first place, many of the orders booked on an exhibition floor are not genuine new business. For a few weeks before the event there is a tendency for the traveler to present cheap travel facilities to his best customers and to suggest that current orders be held and given at the stand, to work up a good showing. Second, the display of individual patterns and proposed ranges to a mass of competitors hastens effective competition. One large British firm is this spring finding a good response to green sport troussers and is quietly booking up its retailers. To display this novelty shade in an exhibition would be to put all the trade wise to the possible vogue.

Objections formulated here are not applied to export trade, but many English clothing houses do their exporting business through appointed buying agents abroad, so that the attraction of foreign buyers to an exhibition does not benefit them.

France

New budget passed Chamber of Deputies but likely to be modified by the Senate. Income taxes drastically increased. New nickel coinage proposed. Franco-German trade pact modified.

PARIS (Wireless)—Political cooperation between the Socialists and the Radical Socialists in the Chamber of Deputies made possible the passage of M. Daladier's new budget bill this week. It now goes to the Senate where it is likely to be pretty thoroughly modified, especially in regard to new taxes proposed. Despite this victory for Daladier, there is considerable talk of a National Coalition government for France. The recent flight of capital, continuing reports of declining industrial activity, and the new evidences of internal hoarding have

driven leaders of various parties to see that cooperation is necessary.

The new budget is made to balance (on paper) at 5.5 billion francs. By stricter control of tax returns, 901 million francs are expected to be saved. New taxes will return another 1,313 million.

Higher Income Tax

Item in the new budget which met with the greatest opposition is the radical increase in income tax rates. The bill demands an average increase in income tax of 20%, and this rises to a maximum of 50% on incomes exceeding \$6,000. Another unexpected victory is the agreement to cut armament expenditures 22%.

The income tax increases are expected to cause strikes among the taxpayers and government functionaries next week and will have an influence on the Senate when it studies the bill.

It is interesting that France is again counting on the profits from new coinage to meet a part of the deficit. The present bill provides for the coinage of new 5-franc nickel coins, profits from which are estimated at 900 million francs. Inasmuch as the 80 million

francs of ingots of raw nickel required for this will be purchased on the open market it should react favorably on world nickel stocks.

The French steel industry, with the other members of the European cartel, is encouraged over the prospect that reorganization of the cartel is nearly completed and its continued existence assured.

Germany has notified France that after Mar. 1 she has decided to exercise the option in the clause of the recent Franco-German trade pact which allows her freedom to alter individual tariff rates without changing the entire list as it was consolidated in the previous treaty of 1927. The decision affects French industrial exports amounting to \$30 millions in 1932 and agricultural exports of \$41 millions. The French are demanding new Franco-German negotiations at once to reestablish equilibrium.

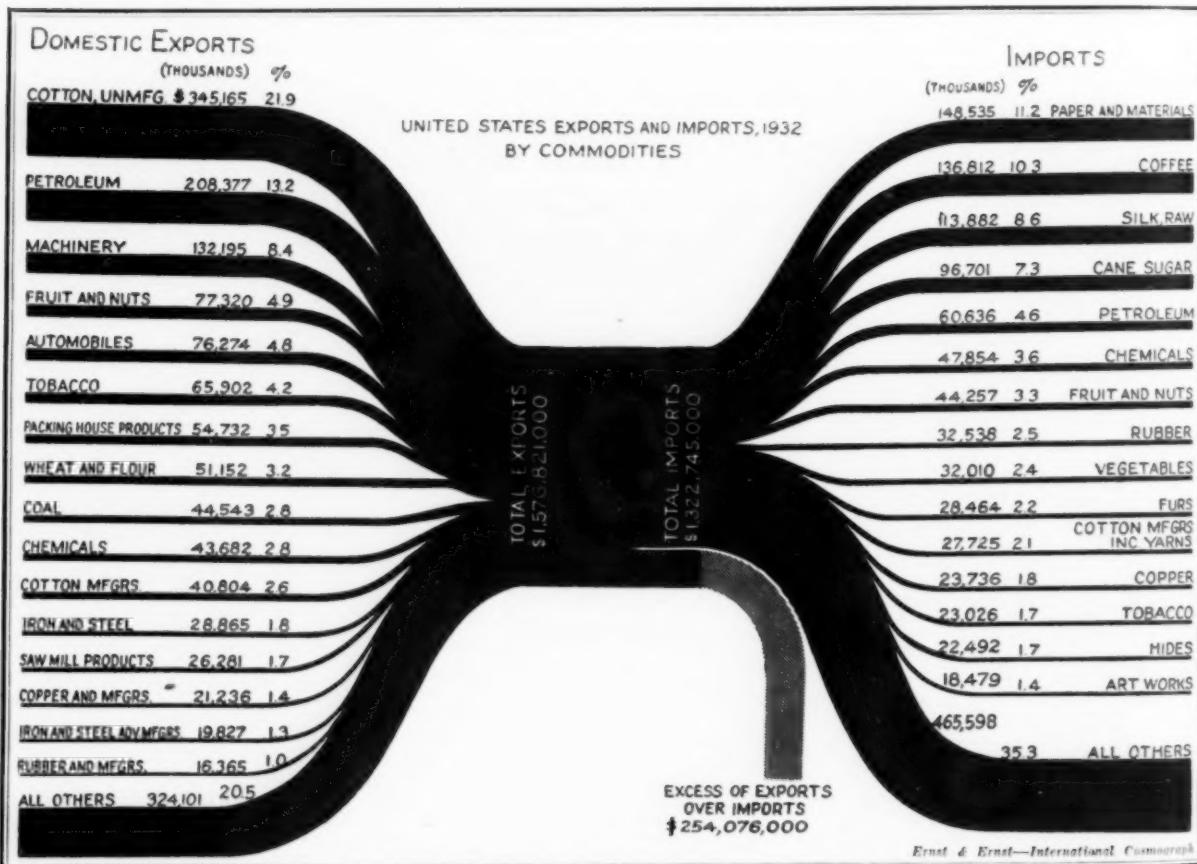
The long-time rivalry between rayon and silk in Lyons, the "silk city" of France, appears to be at an end. The silk trade of Lyons has fought rayon perhaps more bitterly than any other silk group in the world, their activity

once crystallizing in the organization of a "committee of defense." Now, rayon is being accepted as a textile which helps rather than hurts Lyons' prestige. Plans are reported pending in the Chamber to forbid the use of the term "artificial silk," objectionable to the rayon industry.

Far East

Boom continues in Japan but business is perturbed by the flight of capital and the prospect of complete control of foreign exchange very soon.

JAPAN is taking her spanking by the League of Nations without a whimper. In fact, there is not yet a single bit of evidence that Tokyo is alarmed over the stand by the rest of the world against her policy of aggression on the Asiatic mainland. With the approach of spring, the Japanese have warned China that troops must be withdrawn from Jehol (pronounced "Ruh-huh"), and have intimated that they will withdraw from the League and go their own way. In

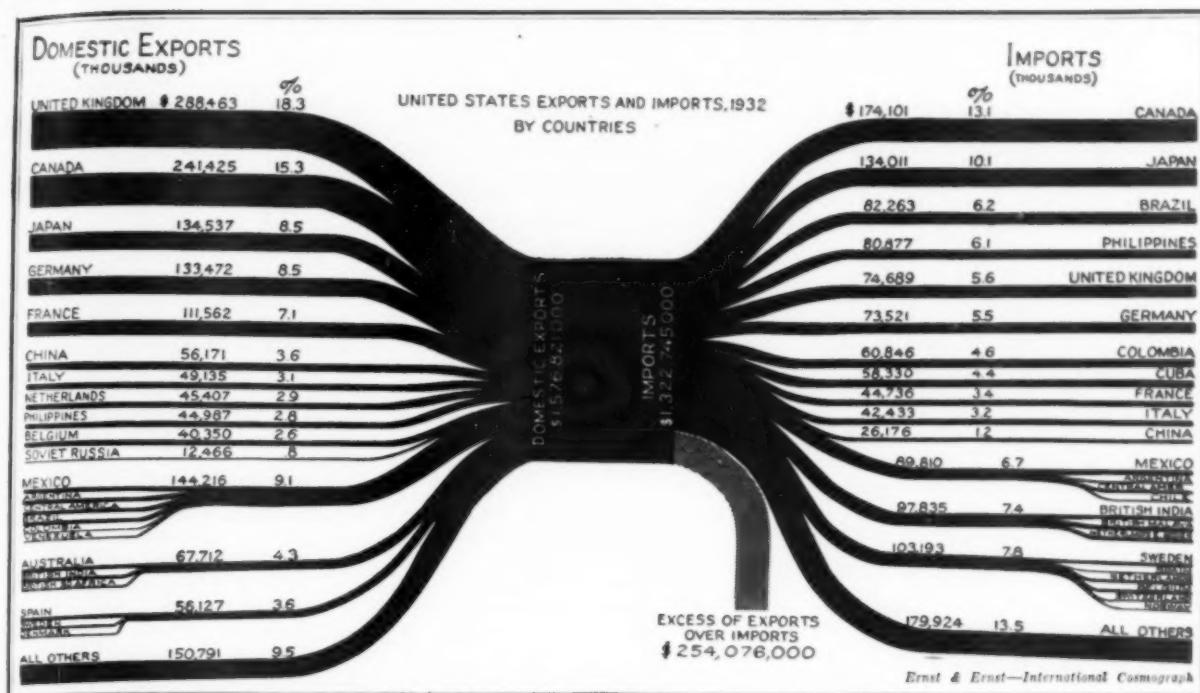


WHAT WE BUY—AND SELL—A picture of our foreign trade for 1932. Though a year of distorted dollar values and shrunken physical volume of trade, rank and proportions of commodities were little changed. We sell raw cotton, petroleum, machinery principally; next automobiles, tobacco, fruit, nuts. Wheat was abnormally low in 1932. We buy paper materials, coffee, silk, and sugar. Commodities around which all the recent protest over foreign competition centered aren't big enough to show on the chart, except as part of "all other." As usual, every dollar paid for imports stayed right here to "Buy American."

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WHERE WE BUY—AND SELL—The United Kingdom and Canada, these are our best customers, ranking far ahead of any others. Next come Japan, Germany, and France, in that order. The rest of the long list are relatively unimportant, unless the Latin American countries are to be lumped. We buy most from Canada (paper materials, lumber), and Japan (silk). Then comes Brazil (coffee of course). From some countries we buy more than we sell, or the other way 'round. That all washes out in three-cornered transactions, does not affect the balance. "Invisible" items omitted in both charts.

a calm, well-ordered world this announcement would constitute the major topic of diplomatic news. Now it is lost more or less in the worries over war debts, the gold standard, and equally intense friction in at least 3 other regions.

Though each move by China to organize for opposition against the Jehol drive is watched closely, major attention centers in Japan. Industry is booming. Demand for steel in Japan this year is expected to reach 2.8 million tons, a 60% gain over 1932. At least 1.5 million tons of pig iron will be needed, which is 3 times the amount consumed last year. Even in the boom year of 1928, Japan consumed only 2.6 million tons of steel.

Shipping Boom

Japanese shipping revenue exceeded ¥150 millions in 1932. A year ago shipping returns came only to ¥97 millions. Even with some adjustment of rates to compensate in part for the decline in price of the yen, Japanese bottoms are carrying a large share of the trade. Also important is the increasing volume of trade resulting from the export boom.

Everything is not rosy. There has been a substantial decline in security prices in recent weeks. Retail prices are rising internally, but wages still have not increased. While this condition aids the manufacturer, it does not mitigate social unrest, which is serious.

During the week the Diet has been considering a bill which will give the government complete control of foreign exchange. Though not yet passed, such a move is inevitable. The proposed legislation would seek to prevent the flight of capital by eliminating the activity of speculators in foreign exchange transactions and by prohibiting obvious speculative imports but would not attempt directly to peg exchange quotations or to raise rates artificially. It will also seek to force the prompt sale of export bills.

Some attention has been attracted in Tokyo and Osaka by the address of Mr. Yunosuke Wasukawa, senior managing director of the Mitsui Bussan Kaisha, in which he said: "There is good reason to believe that the new President, Mr. Roosevelt, may replace the gold embargo in the United States to bring about economic recovery. If this really takes place, the exchange rate on Japanese yen will revive from the current 21¢ to 30¢ or possibly to 40¢, and Japanese financial and industrial circles will be upset. It may not take place but Japanese financiers and industrialists must consider the possibility lest they be caught unprepared when it happens."

Japanese business is considering both these facts. The inflation in Japan has no doubt caused a certain flight of currency abroad or into commodities in recent weeks. On the other hand, the present industrial boom will go flat,

except for military business, if Japan loses her export advantage derived from the exceptionally deflated yen.

Raw cotton imports in the first 10 days of February exceeded in value the total for all Japanese exports. The unfavorable balance of trade for the period exceeded \$7 millions. Other imports than cotton were not itemized.

Latin America

Situation more tense in Cuba; hostilities begin at Leticia. No striking business developments during the week.

THERE is no outstanding business progress to report from Latin America this week. Hostilities have opened between Colombia and Peru in the remote upper reaches of the Amazon. Rebels to the present régime in Cuba are said to be concentrating in Mexico and Honduras, in preparation for an attack on the Machado government. In Argentina, the farm strike is spreading. Political uncertainty over Uruguay is no greater than it was a week ago.

Conditions in Mexico and Argentina are still relatively good. Foreign stockholders of Cosach, the Chilean nitrate trust, have finally agreed to appoint a representative to the committee which will attempt to reorganize the corporation.

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SILK, RAW
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PETROLEUM
CHEMICALS
NUTS
RUBBER
TABLETS
FURS
MFGS
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WEEK

The Figures of the Week

The Michigan moratorium on banking institutions is the focus of attention this week, but its significance is still problematical. Motor concerns are doing business as usual and helping to sustain the steel industry. Cold weather stimulated coal and electric power production. Currency circulation outstanding again expanded.

THE startling announcement of an 8-day moratorium for all banks in the state of Michigan was easily the most dramatic event that business had to face this week. How far-reaching will be its effects and how easily the usual conditions can be restored is still a matter of conjecture. Aid has been forthcoming from various governmental agencies, so that it is hoped more normal conditions may rapidly be restored.

While bank suspensions throughout the country have been declining in the past 4 weeks, the total of 41 for the week ending Feb. 9 is still not assuring. To date some 292 banks with deposits of over \$165 millions have been forced to close their doors. Nebraska has just enacted a law whereby closed state banks will be permitted to reopen where 85% of the depositors and unsecured creditors

of the bank sign an agreement. Business will be limited to receiving deposits and paying checks. No loans will be permitted.

Currency Outstanding Abnormal

The failure of our banking system to serve in its normal fashion is readily apparent in the excessive volume of currency outstanding in the country. Comparison with 1932 now conceals the huge volume of circulating media, since the abnormal upward trend was begun in the late summer of 1931 and continued through 1932. But at the beginning of February, 1931, the currency in circulation totaled \$4.6 billions; now it stands at \$5.7 billions in spite of considerably lower business volume. This situation throws doubt on the beneficial effects which the issuance of more currency could achieve.

The other side of the story is told in the data on check payments. The 5-year average of check payments in the 140 cities outside of New York does not greatly exceed the average of currency circulation, but the data of the latest week indicate that check payments have shrunk to half, while currency circulation exceeds the average of the preceding 5 years. The deposits against which checks are drawn are not smaller than a year ago, but actually are greater by \$511 millions in the reporting member banks of 102 leading cities. But the turnover of these deposits, which fluctuated between 26 to 32 times a year in the period 1923-1925, and rose to 45 in 1929, dropped to 16 in the last quarter of 1932.

After check payments declined 33% in 1932 in the 141 cities, it is disappointing that January should witness a 27% drop from the level of a year ago. In view of the interest now centered on Detroit, it may be noted that check payments in that city declined 36% from January, 1932. If the moratorium continues, check data from Michigan centers will be distorted for a period.

Though the motor concerns of General Motors, Ford, and Chrysler figure prominently in the reports of the Detroit banking difficulties, the steel trade jour-

THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY

PRODUCTION

	Latest Week	Preceding Week	Year Ago	Five-Year Average (1928-1932)
Steel Ingot Operation (% of capacity)	20	19	26	66
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	\$3,403	\$3,549	\$3,418	\$11,581
Bituminous Coal (daily average, 1,000 tons)	*975	955	1,208	1,634
Electric Power (millions K. W. H.)	1,483	1,455	1,579	1,668

TRADE

Total Carloadings (daily average, 1,000 cars)	81	79	96	136
Miscellaneous and L. C. L. Carloadings (daily average, 1,000 cars)	52	52	61	84
Check Payments (outside N. Y. City, millions)	\$2,487	\$2,697	\$2,951	\$4,949
Money in Circulation (daily average, millions)	\$5,717	\$5,664	\$5,642	\$4,838

PRICES (Average for the Week)

Wheat (No. 2, hard winter, Kansas City, bu.)	\$0.43	\$0.42	\$0.52	\$0.96
Cotton (middling, New York, lb.)	\$0.061	\$0.060	\$0.069	\$0.141
Iron and Steel (STEEL composite, ton)	\$28.27	\$28.35	\$29.57	\$33.67
Copper (electrolytic, f.o.b. refinery, lb.)	\$0.048	\$0.048	\$0.059	\$0.130
All Commodities (Fisher's Index, 1926 = 100)	55.3	55.3	63.6	85.5

FINANCE

Total Federal Reserve Credit Outstanding (daily average, millions)	\$2,078	\$2,074	\$1,803	\$1,246
Total Loans and Investments, Federal Reserve reporting member banks (millions)	\$18,573	\$18,725	\$19,785	\$21,641
Commercial Loans, Federal Reserve reporting member banks (millions)	\$5,824	\$5,907	\$7,212	\$8,349
Security Loans, Federal Reserve reporting member banks (millions)	\$4,204	\$4,259	\$5,504	\$6,941
Brokers' Loans, New York Federal Reserve reporting member banks (millions)	\$422	\$454	\$486	\$3,028
Stock Prices (average 100 stocks, Herald-Tribune)	\$84.10	\$83.90	\$92.69	\$147.16
Bond Prices (Dow, Jones, average 40 bonds)	\$80.22	\$80.01	\$78.76	\$92.81
Interest Rates — Call Loans (daily average, renewal)	1%	1%	2.5%	3.9%
Interest Rates — Prime Commercial Paper (4-6 months)	1 1/4-1 1/2%	1 1/4-1 1/2%	3 1/4-4%	4.2%
Business Failures (Dun, number)	629	660	693	588

*Preliminary

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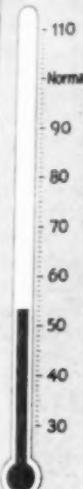
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WEEK

BUSINESS INDICATOR



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures—steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



nals report that the effect on operating schedules of the manufacturers will not be significant. Provisions have been made by these companies to meet their payrolls with cash. The effect of the strikes is gradually wearing off and production is being stepped up in Ford and Hudson plants. Ford has not reported his January output, so that the figures recently released by the National Automobile Chamber of Commerce placing factory shipments at 115,915 are not comparable with the government releases. The Chamber indicates that this figure is 5% above that of a year ago, and 38% above December. Sales are reported for only 8 states, but the outlook is favorable for both trucks and passenger cars.

Steel Business Better

Iron Age assumes a cheerful tone this week in relating definite improvement in steel business aside from the support given by the motor industry. Chicago has been stimulated with news of better inquiries, but activity remains at 18% of capacity. Cleveland and Pittsburgh have gained a point, the former now averaging 38% and the latter 16%. Wheeling is hitting 35% with the aid of tin plate requirements. The increasing interest in bars foreshadows renewed activity in a wide number of industries.

Structural business has had a poor week, though hope is unabated for future contracts through the agencies of the states under the aid of the R.F.C.

The severe drop in the unfilled orders of the U. S. Steel Corp. in January came as a shock to the trade. The total of 1,898,644 tons establishes a new low record. The corporation has probably

benefited less by the spurt in motor production during January than some of the independent mills, but its miscellaneous business has been fair. Activity of U. S. Steel is now estimated at 16% of capacity, while independents are operating at 22%.

Railroad business remains dull. Estimates for near-by requirements are being made, but little is expected. The *Railway Age* reports orders for 4 small locomotives, 3 of them being electric switching engines for the Chicago, Burlington & Quincy.

Signs of greater stability in steel prices are encouraging. Efforts to raise wire products \$1 a ton give hope that recent weakness may be removed, and a firming of the general price structure be achieved.

February construction data based on the 37 states is not yet available. Ordinarily the month shows an upward trend. Data based on heavy engineering jobs compiled by the *Engineering News-Record* do not reflect such a trend, though they do indicate improvement in the volume of private work undertaken. Government awards dropped from \$10.6 millions in the first week of February to \$2.1 millions the following week. On the other hand, private awards have risen from \$3.2 millions to \$7.4 millions.

Mortgage Relief

The establishment of the Realty Stabilization Corp. to refinance New York City mortgages comes as a welcome relief. Reduction of mortgage rates is steadily gaining ground and acceptance. Foreclosures in urban centers have risen sharply in the past years, Philadelphia showing 4,868 foreclosures

in 1926 and 18,479 in 1932; Chicago, 1,435 in 1926 and 15,187 in 1932; Boston, 733 in 1926 and 2,467 in 1932.

Carloadings are still running just short of 16% below the comparable period of 1932. The gain for the week of Feb. 4 was again due to coal loadings, whose fluctuations have influenced the total loadings of recent weeks. Colder weather is probably the underlying factor in lifting coal production.

Commodity Prices

Commodity prices still reflect a bearish outlook. Where a little strength was apparent before the recent holiday, by the following business day that small gain was lost. Sugar stands as the outstanding exception to the sagging market. The uncertain situation in Cuba probably accounts for it.

Cotton prices followed the general trend downward in spite of the announcement that consumption in American mills had gained in usual seasonal form in January. Seed loans next season may carry the provision that acreage must be cut up to 30%. The final approval of the consolidated commodity markets of silk, hides, rubber, and non-ferrous metals has been voted and as soon as suitable accommodations can be secured, 6 commodities will be traded upon one floor.

A gratifying reduction in commercial failures compared with the past 2 years occurred in January. Though the total of 2,919 concerns was greater than any month of the last 3 quarters, it showed a 15.6% drop from a year ago. Liabilities were 18.3% smaller. This is the fourth consecutive month to show a lower total of defaults than for comparable months of the preceding year.

The Financial Markets

Michigan bank holiday unsettles stocks and bonds, gives financial markets thoughtful hours followed by reassurance as better news follows first announcements. Reserve statements show continued bank liquidation and an increase in circulation.

Money

A TENSE banking situation in Michigan, for which Wall Street seemed wholly unprepared, interrupted the somnolent atmosphere of the financial markets last week. The unexpected news of the closing of practically every bank in Michigan left the Street worried but not at all panicky.

Underground news from Michigan reaching the financial centers is reassuring. There are reports that in every bank in Michigan an active survey is under way to determine in what position it will be when the holiday expires, what support it will need, what security it can offer for loans. An active campaign is in progress to persuade some of the larger depositors to convert their deposits into loans to their banks. Added reassurance came from the announcement that Michigan depositors could have their deposits certified and draw at least 5% of them through the Clearing House so as to provide out-of-pocket expenses. While the public has shown the usual signs of uneasiness, causing the usual concern, the general feeling in the financial district is that efforts to localize the Michigan situation

should prevent its having any widespread effect.

The Treasury continued its short-term borrowing by inviting tenders for \$75 millions of 91-day Treasury bills dated Feb. 8. The total amount applied for was \$230,790,000, and the lowest bid accepted carried an interest rate of 0.2% on an annual basis, showing no weakening in the government's ability to command capital for short-term loans at small cost. Other short-term interest rates remain unchanged.

Heavy earmarking of gold by foreign central banks continues, bringing the total to \$79 millions since the first of the year. Most of the earmarking since Jan. 1 has been for British account, but several other foreign banks have been participating. Wall Street attempted to trace a link between the earmarking of gold and the banking troubles in the United States. However, the connection seems tenuous. The withdrawals, while important, do not have the volume to justify alarmist interpretations.

Statements of the Federal Reserve banks continue to be disconcerting because of the important reversals of trends which they indicate. The mem-

ber banks are still liquidating their loans in heavy volume. Besides the liquidation of \$138 millions in loans, there was a \$40-million drop in investments, of which \$5 millions were United States government securities, and a \$277-million drop in deposits.

Reduction in Reserve bank gold holdings during 3 consecutive weeks now totals \$31 millions, while money in circulation has again increased \$53 millions following a \$63-million increase during the preceding 3 weeks. Both these items represent withdrawals of cash and narrow the base upon which credit can be extended. The net result of all this is that the total debits by banks outstanding has dropped \$250 millions since Feb. 1. The shifting trend is also visible in a decrease in reserve balances totalling \$19 millions.

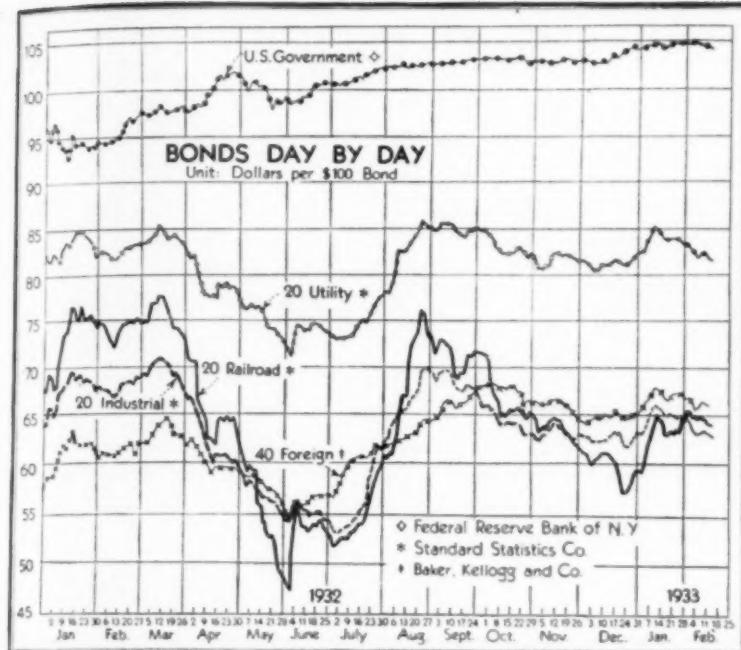
Stocks

The stock market showed less weakness than the bond market in its response to the news from Michigan. There was a sharp decline of 1 to 3 points on the day that the bank closings were announced, but after the trading had increased for the first few hours immediately afterward, the volume showed a tendency to dry up. The break gave the market its first important test of the year and the subsequent strengthening and recovery are favorable auguries. Motor stocks, which were the object of special attack, resisted the downward trend with great vigor and their fluctuations were narrower than on many of the industrials and rails. It should be remembered that the break in prices



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came after several days of advance. At any other time, news such as that from Michigan might have had more serious results.

That the market behaved so well is reassuringly in line with many constructive movements under way and receiving favorable interpretation in terms of security prices. The war debt situation is progressively assuming a more realistic aspect as discussion in the press and in political circles is coming down to brass tacks, and dropping the chauvinism with which it has been marked until recent weeks.

There is considerable hope in the new movements looking toward tariff adjustments that show themselves in various places. Especially heartening was the summary disposition of the proposition to create flexible tariffs in accordance with exchange rates of depreciated currencies. That this defeat came largely from Republican sources made industrialists cough thoughtfully behind their hands.

Bonds

THOUGH statisticians, poring over the charts of bond prices, can point out that bonds took a tumble in consequence of the news from Michigan, actually the bond market behaved remarkably well. It turned soft on the Michigan news, not because of actual selling but because of the withdrawal of bids.

There was a considerable feeling that one of the consequences of the closing of so many banks would be an attempt to liquidate their bond portfolios to

provide funds for depositors, thus repeating the difficulties of 1932 when continued bank failures threw bonds onto the market, and the continued decline in bonds brought fresh bank failures. On the whole, however, the situation is different this year. Distressed banks, with marketable bonds, will be able to borrow on them from the R.F.C. instead of dumping them at distressed prices.

Another factor which adversely affected the bond market was the report of the National Transportation Committee which stressed the fundamental weaknesses in the railway financial organization instead of making a bullish report based on hopes rather than facts.

More thoughtful observers in Wall Street held that the report was constructive because it called attention to weaknesses which should now be attacked realistically. It was felt that the first important move in the railroad rehabilitation has been made with the publication of this pragmatic survey of the field.

There has recently been a marked increase in railway applications for R.F.C. loans. Among the roads which have asked for credit are the Chicago & North Western, Nickel Plate, Rock Island, Chicago & Illinois, Erie, and Lehigh Valley.

Though railroad, industrial and utility bonds declined sharply, and United States governments showed pronounced weakness, foreign issues continued almost unchanged. German bonds revealed the same strength that they have now shown for many weeks.



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—And Now, Rates

DELAYED longer than most prophets would have forecast, the attack on utility rates now is launched in earnest, on a broad front. Bearing the brunt are the railroads, their charges, of course, being the most onerous. But power and light companies feel the onslaught as well.

Here is a text for expounding the inherent impossibilities of our whole business scheme of things. Consider the situation:

With the prices of all commodities and services tumbling, the legally fixed and protected rates of utilities are a complete anomaly. Incomes of private individuals and of business concerns alike are sharply reduced by falling prices. As this develops, a greater and greater proportion of their buying power is diverted from the purchase of commodities to paying fixed rates for utility services. Therefore, they can buy fewer commodities, which reacts to force prices further down.

Moreover, the rates charged for these essential services are part of the cost of all manufactured products. Here is a cost the manufacturer cannot scale down to the general price level. That reduces the sale of his product, causes him to curtail operations, lay off men, do all the other things that intensify the depression. Fixed utility rates, then, are a real bar to business recovery.

Yet consider the position of the utilities. Dismiss from the equation past abuses; they do not affect the essential elements of the problem though they do, indeed, make its solution more difficult. The utility, including the railroad, has been granted a public franchise in return for its surrender of the right to conduct its affairs as a private business would. The amount of its investment has been regulated by the government. The price at which it has sold its services has been strictly regulated. Not for the utility is the opportunity open to build up reserves by high rates in good times to tide itself over times of depression. Instead, public regulatory

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bodies have sternly stamped down efforts to charge off equipment out of earnings; that would have meant higher rates, and low rates the people demanded. The promise plainly implied is that if the utility is not to profit by good times, it must be protected in bad.

What is the solution? In the case of the railroads, hundreds of millions of dollars of public moneys are expended to support an impossible edifice of debt. In the case of other utilities, it may well result in virtual confiscation of some of the investors' funds, lent on the implied governmental promise of safety. For if deflation carries through to what some hard bankers call "its logical conclusion" it is perfectly obvious that the rate structure must be destroyed to bring it in line with the general price level, and with that process goes destruction of a large part of the bonded indebtedness.

Of course, if there is a "reflation," most of these problems are solved, for the moment. But the inherent defect in the structure will not be repaired, it will merely be hidden by the rising tide of prices, to be revealed again at some future time.

And so, what? Just this: We cannot have rigid debts and flexible prices. That is the first and greatest point. The second is a little more complex, but equally true. Adam Smith's beloved system of absolute free play of supply and demand will work. It is cruel beyond any imagining; it is the law of the jungle. But it will work; it carries within itself the powerful corrective forces that swiftly and mercilessly weed out the weak and defenseless, and leave the strong stronger. So might—theoretically, for we never have tried it—a completely regulated system work.

But a system which absurdly pretends to preserve free competition yet interposes artificial restraints at every imaginable point will not work. Not any better than we see it working today.

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